

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant /X/
Filed by a Party other than the Registrant / /

Check the appropriate box:

- /X/ Preliminary Proxy Statement
- / / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- / / Definitive Proxy Statement
- / / Definitive Additional Materials
- / / Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

GRAY COMMUNICATIONS SYSTEMS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- /X/ \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.
- / / \$500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).
- / / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- / / Fee paid previously with preliminary materials.
- / / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The 1996 Annual Meeting of Shareholders of Gray Communications Systems, Inc. (the "Company") will be held at 4370 Peachtree Road, N.E., Atlanta, Georgia 30319, on the 27th day of June, 1996 at 9:00 a.m. local time for the following purposes:

- (1) To elect eight directors to hold office until their respective successors have been duly elected and qualified;
- (2) To consider and take action upon a proposal to adopt and approve Articles of Amendment to the Company's Articles of Incorporation (the "Amendment") to (a) increase the voting rights of the Class A Common Stock of no par value such that the Class A Common Stock shall have 10 votes per share on each matter that is submitted to shareholders for approval, (b) redesignate the presently authorized Class B Common Stock of no par value with no voting rights, such that the Class B Common Stock of no par value shall have one vote per share on each matter that is submitted to shareholders for approval and shall have certain rights as described herein and (c) increase the authorized number of shares of the Company's capital stock to 50,000,000 shares designating 15,000,000 shares as Class A Common Stock of no par value; 15,000,000 shares as Class B Common Stock of no par value and 20,000,000 shares as Preferred Stock;
- (3) To consider and take action upon a proposal to amend the Company's Bylaws to permit an increase of the voting rights of the Class A Common Stock to 10 votes per share;
- (4) To consider and take action upon a proposal to amend the Company's 1992 Long Term Incentive Plan for certain employees of the Company and its subsidiaries to provide for the issuance of Class B Common Stock instead of Class A Common Stock and to reserve for issuance thereunder 400,000 shares of Class B Common Stock;
- (5) To approve the issuance to Bull Run Corporation of warrants to purchase 487,500 shares of Class A Common Stock;
- (6) To approve the issuance to Bull Run Corporation of warrants to purchase 500,000 shares of Class A Common Stock;
- (7) To ratify the Board of Directors' approval of an amendment to the Company's non-qualified stock option plan for non-employee directors of the Company;
- (8) To approve the appointment of Ernst & Young LLP as independent auditors of the Company and its subsidiaries for the year ending December 31, 1996; and
- (9) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only holders of record of Class A Common Stock at the close of business on June 4, 1996 will be entitled to notice of and to vote at this meeting or any adjournment or adjournments thereof. The transfer books of the Company will not be closed.

IT IS IMPORTANT THAT YOUR STOCK BE REPRESENTED AT THIS MEETING IN ORDER THAT THE PRESENCE OF A QUORUM BE ASSURED. ENCLOSED IS A FORM OF PROXY WHICH, IF YOU DO NOT EXPECT TO ATTEND IN PERSON, YOU ARE URGED TO SIGN AND FORWARD TO THE SECRETARY IN THE ACCOMPANYING ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

By Order of the Board of Directors
Robert A. Beizer, SECRETARY

June 6, 1996

GRAY COMMUNICATIONS SYSTEMS, INC.
P.O. BOX 48
ALBANY, GEORGIA 31702-0048

PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JUNE 27, 1996

SOLICITATION AND REVOCABILITY OF PROXY

The enclosed proxy is solicited by the Board of Directors of Gray Communications Systems, Inc. (the "Company") in connection with the Annual Meeting of Shareholders to be held at 4370 Peachtree Road, Atlanta, Georgia 30319, on the 27th day of June, 1996 at 9:00 a.m., local time, and at any adjournments thereof.

The approximate date on which this Proxy Statement and form of proxy are first being sent or given to shareholders is June 6, 1996.

You are requested to sign and complete the enclosed proxy and return it in the enclosed envelope. Any person giving this proxy has the power to revoke it at any time before it is exercised by delivering to the Company a written instrument revoking it or a duly executed proxy bearing a later date. The proxy will also be revoked if the person or persons executing it shall be present at the meeting and elect to vote in person. If the proxy is not revoked or suspended, the shares represented by the proxy will be voted as specified at the meeting. All proxies received pursuant to this solicitation will be voted except as to matters where authority to vote is specifically withheld and, where a choice is specified as to the proposal, they will be voted in accordance with such specification. If no instructions are given, the persons named in the proxy solicited by the Board of Directors of the Company intend to vote for the nominees for election as directors of the Company listed herein and for approval of the proposals stated in the accompanying notice and described herein. Abstentions and broker non-votes are not counted as votes cast on any matter to which they relate.

The Board of Directors is not aware of any matter that may come before the meeting other than the proposals stated in the accompanying Notice and as described herein. No director has informed management that he intends to oppose any action to be taken at the meeting. If any other matter is properly presented at the meeting for action, the individuals named in the proxy will have discretionary authority to vote on such matter.

The cost of soliciting proxies will be borne by the Company, which may reimburse brokers and others for their expenses incurred in obtaining voting instructions from beneficial owners of Class A Common Stock held of record by such brokers and others.

OUTSTANDING CAPITAL STOCK

The record date for shareholders entitled to vote at the meeting is the close of business June 4, 1996. At the close of business on that date, the Company had issued and outstanding 4,419,576 shares of Class A Common Stock, which constitute the only voting securities of the Company.

QUORUM AND VOTING

Only owners of record of shares of the Class A Common Stock at the close of business on the record date will be entitled to vote at this meeting. Each owner of record on the record date is entitled to one vote for each share of Class A Common Stock so held. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Class A Common Stock shall constitute a quorum at the meeting of shareholders. Except as stated specifically and except with respect to the election of directors, which is by plurality of votes cast, each of the matters being submitted to shareholder vote will be approved if a quorum is present in person or by proxy and a majority of the votes cast on a particular matter are cast in favor of that matter.

ROBERT S. PRATHER, JR.

DIRECTOR SINCE 1993

AGE: 51

Robert S. Prather, Jr. has been President and Chief Executive Officer of Bull Run Corporation since July 1992 and a Director of Bull Run Corporation since 1992. Prior to that time, he was President and Chief Executive Officer of Phoenix Corporation, a steel service center. He is a member of the Executive Committee and Management Personnel Committee.

J. MACK ROBINSON

DIRECTOR SINCE 1993

AGE: 72

J. Mack Robinson has been Chairman of the Board of Bull Run Corporation since March 1994, Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1958, President of Atlantic American Corporation, an insurance holding company, from 1974 until 1995 and Chairman of the Board of Atlantic American Corporation since 1974. He is also a director of the following corporations: Bull Run Corporation, Atlantic American Corporation, Atlantic American Life Insurance Company, Bankers Fidelity Life Insurance Company, Delta Life Insurance Company, Delta Fire and Casualty Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company, and American Safety Insurance Company and director emeritus of Wachovia Corporation. Mr. Robinson is a member of the Executive Committee and Management Personnel Committee. Mr. Robinson is the father-in-law of Hilton H. Howell, Jr.

SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS AND OTHER PRINCIPAL HOLDERS OF THE COMPANY'S VOTING SECURITIES

The following table sets forth certain information regarding the ownership of Class A Common Stock as of April 15, 1996 by (i) any person who is known to the Company to be the beneficial owner of more than five percent of the Class A Common Stock of the Company, (ii) all directors, (iii) all named executive officers and (iv) all directors and executive officers as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
Bull Run Corporation (1)	1,211,590	27.1%
George H. Nader (2)	240,899	5.4%
Ralph W. Gabbard	917	*
William A. Fielder III (3)	8,515	*
Sabra H. Cowart	181	*
Robert A. Beizer	--	*
Thomas J. Stultz	1,500	*
Joseph A. Carriere	562	*
William E. Mayher III (3)	16,500	*
Richard L. Boger (3)	24,150	*
Hilton H. Howell, Jr. (3)(4)(5)(6)	69,150	1.5%
Howell W. Newton	9,250	*
Hugh Norton	16,500	*
Robert S. Prather, Jr. (3)(4)(7)	30,750	*
J. Mack Robinson (3)(4)(6)(8)	791,940	17.7%
John T. Williams (9)	78,752	1.8%
All directors and executive officers as a group (14 persons)	1,048,667	23.5%

* Less than 1%

(1) Owned by Bull Run Corporation through its wholly-owned subsidiary, Datasouth Computer Corporation. The address of Bull Run Corporation is 4370 Peachtree Road, N.E., Atlanta, Georgia 30319.

(2) Mr. Nader's address is P.O. Box 271, 1011 Fifth Avenue, West Point, Georgia 31833.

(3) Includes 7,500 currently exercisable options.

- (4) Excludes shares owned by Bull Run Corporation. Messrs. Howell, Prather and Robinson are directors and officers of Bull Run Corporation. Messrs. Prather and Robinson are principal shareholders of Bull Run Corporation.
- (5) Includes 39,050 shares owned by Mr. Howell's wife, as to which shares Mr. Howell disclaims beneficial ownership. Excludes 63,000 shares held in trust for Mr. Howell's wife.
- (6) Excludes as to Mr. Howell, and includes as to Mr. Robinson, an aggregate of 297,540 shares owned by certain companies of which Mr. Howell is an officer and director and Mr. Robinson is an officer, director and a principal or sole shareholder.
- (7) Includes 150 shares owned by Mr. Prather's wife, as to which shares Mr. Prather disclaims beneficial ownership.
- (8) Includes an aggregate of 256,650 shares owned by Mr. Robinson's wife directly and as trustee for their daughters, as to which shares Mr. Robinson disclaims beneficial ownership. Mr. Robinson's address is 4370 Peachtree Road, N.E., Atlanta, Georgia 30319.
- (9) Mr. Williams resigned his position as President and Chief Executive Officer of the Company effective December 1, 1995.

EXECUTIVE OFFICERS

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

Robert A. Beizer, age 56, was appointed Vice President for Law and Development and Secretary in February 1996. From June 1994 to February 1996, he was of counsel to Venable, Baetjer, Howard & Civiletti, a law firm, in its regulatory and legislative practice group. From 1990 to 1994, Mr. Beizer was a partner at the law firm of Sidley & Austin and was head of its communications practice group in Washington, D.C. He is a past president of the Federal Communications Bar Association and a member of the ABA House of Delegates.

Joseph A. Carriere, age 62, was appointed Vice President -- Corporate Sales in February 1996. From November 1994, until his appointment as Vice President he served as President and General Manager of KTVE Inc., a subsidiary of the Company. Prior to joining the Company in 1994, Mr. Carriere was employed by Withers Broadcasting Company of Colorado as General Manager from 1991 to 1994. He has served as a past chairman of the CBS Advisory Board and the National Association of Broadcasters.

Sabra H. Cowart, age 29, joined the Company in March 1994 as corporate accounting manager. In April 1995, she was appointed Controller and Chief Accounting Officer of the Company and in February 1996, she was appointed Assistant Secretary of the Company. Prior to joining the Company, Ms. Cowart was employed from 1989 to 1994 by Deloitte & Touche LLP, an accounting firm.

William A. Fielder, III, age 37, was appointed Controller of the Company in April 1991 and appointed Vice President and Chief Financial Officer of the Company in August 1993. Prior to being appointed as Controller in April 1991, he was employed by Ernst & Young LLP, the independent auditors for the Company.

Ralph W. Gabbard, age 50, has served as President and Director of the Company since December 1, 1995. For additional information regarding Mr. Gabbard, see "Election of Directors."

Thomas J. Stultz, age 44, was appointed Vice President of the Company and was appointed President of the Company's publishing division in February 1996. Prior to joining the Company, he was employed by Multimedia Newspaper Company, a division of Multimedia, Inc. where he served as Vice President from 1990 to 1995.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the directors, executive officers and persons who own more than ten percent of a registered class of a company's equity securities to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership

(Form 3) and reports of changes in ownership (Forms 4 and 5) of such class of equity securities. Officers, directors and greater than ten percent shareholders of the Company are required by SEC regulation to furnish the Company with copies of all such Section 16(a) reports that they file.

To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the year ended December 31, 1995, all Section 16(a) filing requirements applicable to its officers, directors and ten percent beneficial owners were met, except for John T. Williams' inadvertent failure to file Forms 4 for three stock awards made by the Company under his 1992 Restricted Stock Agreement. These awards of 37,500, 37,500 and 75,000 shares of Class A Common Stock were made on January 24, March 2 and March 14, 1995, respectively. Mr. Williams also inadvertently failed to file a Form 4 disclosing the sale of 75,000 shares of Class A Common Stock which occurred in December 1995. These transactions were reported on his Form 5 filed timely in February 1996. Additionally, Ralph W. Gabbard inadvertently failed to file timely a Form 4 regarding the purchase of 150 shares of Class A Common Stock in 1995. This transaction was reported on his Form 5 filed in February 1996. Mr. Gabbard also inadvertently failed to file timely a Form 3 in 1994 upon appointment as an officer of the Company to report 300 shares of Class A Common Stock owned by him prior to that election.

DIRECTORS COMMITTEES AND MEETINGS

Six meetings of the Board of Directors were held during the Company's last fiscal year. Each director of the Company attended at least 75% of the aggregate of (i) all meetings of the Board of Directors and (ii) all meetings of committees of the Board of Directors of which he was a member, during the period he served during the year ended December 31, 1995. In addition to the Executive Committee, the Board of Directors has a Management Personnel Committee and an Audit Committee. The Audit Committee is comprised of Messrs. Newton and Howell. The functions performed by the Audit Committee include review of the affairs of the Company with its independent auditors in determining whether in the professional opinion of such auditors, the accounts are currently and accurately kept and the condition of the Company corresponds therewith, as well as whether officers and employees of the Company have provided adequate cooperation and assistance to the Company's independent auditors for the purpose of making its determination. It held one meeting during 1995.

The Management Personnel Committee is comprised of Messrs. Boger, Prather and Robinson. Among its functions is to make recommendations with respect to executive salaries, bonuses and compensation and to serve as the nominating committee with respect to the principal officers and other committees of the Board of Directors, as well as making nominations respecting membership of the Board of Directors of the Company. The Committee will consider recommendations for nominees for directorship submitted by shareholders. The Management Personnel Committee met four times during the year ended December 31, 1995.

DIRECTOR'S COMPENSATION

Directors who are not employed by the Company receive an annual fee of \$6,000. Nonemployee directors are paid \$500 for attendance at meetings of the Board of Directors and \$500 for attendance at meetings of Committees of the Board. Committee chairmen, not employed by the Company, receive an additional fee of \$800 for each meeting they attend. Any outside director who serves as Chairman of the Board receives an annual retainer of \$12,000. Outside directors are paid 40% of the usual fee arrangement for attending any special meeting of the Board of Directors or any Committee thereof conducted by telephone.

EXECUTIVE COMPENSATION

The following table sets forth a summary of the compensation of the Company's President, its former Chief Executive Officer and the other executive officers whose annual compensation exceeded \$100,000 during the year ended December 31, 1995 ("named executives"). John T. Williams resigned as President, Chief Executive Officer and director and was replaced by Ralph W. Gabbard effective December 1, 1995.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG TERM COMPENSATION		
	YEAR	SALARY	BONUS	AWARDS		
				RESTRICTED STOCK AWARDS	SECURITIES UNDERLYING OPTIONS SARS (#)	ALL OTHER COMPENSATION (1)
John T. Williams, President, Chief Executive Officer and director (2)	1995	\$ 285,000	\$ --	\$ 2,081,250(2)	--	\$ 606,266(2)
	1994	286,867	71,910	--	--	2,112
	1993	258,400	112,500	--	--	1,950
Ralph W. Gabbard, President and director	1995(3)	261,000	150,000	--	15,000	12,628
	1994	77,000	118,941	--	30,509	1,200,000(4)
	1993(5)	--	--	--	--	--
William A. Fielder, III, Vice President and Chief Financial Officer	1995	105,000	22,050	--	3,000	9,188(6)
	1994	95,000	--	--	--	6,055(6)
	1993	88,161	--	--	7,500	6,040(6)
Joseph A. Carriere, Vice President Corporate Sales	1995	115,000	65,922	--	3,750	878
	1994(7)	6,635	--	--	--	--
	1993(5)	--	--	--	--	--

- (1) All other compensation includes the Company's matching contributions to its 401(k) plan and insurance premiums paid on behalf of the executive officer.
- (2) Mr. Williams resigned his position as President, Chief Executive Officer and director of the Company effective December 1, 1995. Upon his resignation, his employment agreement with the Company was amended to pay consulting fees of approximately \$596,000 over the two-year period ending November 1997. Additionally, the Company issued 150,000 shares of Class A Common Stock to him in accordance with his employment agreement, which was amended to remove certain restrictions on such shares.
- (3) Mr. Gabbard was elected President and Director of the Company in December 1995. Prior to this election he served as Vice President of the Company and President and Chief Operating Officer of the Company's broadcast operations from September 2, 1994 to December 1995.
- (4) Mr. Gabbard has an employment agreement with the Company which provides him 122,034 shares of Class A Common Stock if his employment with the Company continues until September 1999. The Company will recognize approximately \$1.2 million of compensation expense for this award over the five-year period. Approximately \$80,000 and \$240,000 of expense was recorded in 1994 and 1995, respectively.
- (5) Not employed by the Company during this year.
- (6) All other compensation includes amounts accrued for supplemental retirement benefits.
- (7) Mr. Carriere joined the Company in November 1994 as President and General Manager of KTVE Inc.

STOCK OPTIONS GRANTED

The following table contains information on stock options granted to the Company's President and the named executives during the year ended December 31, 1995. Under the Company's 1992 Long Term Incentive Plan (the "Incentive Plan") all officers and key employees are eligible for grants of stock options and other stock-based awards. Options granted are exercisable over a three-year period beginning on the second anniversary of the grant date and expire one month after termination of employment. The total number of shares of Class A Common Stock issuable under the Incentive Plan is not to exceed 600,000 shares, subject to adjustment in the event of any change in the outstanding shares of such stock by reason of a stock dividend, stock split, recapitalization, merger, consolidation or other similar changes generally affecting shareholders of the Company.

The Incentive Plan is administered by the members of the Management Personnel Committee of the Board of Directors (the "Committee") who are not eligible for selection as participants under the Incentive Plan. The Incentive Plan is intended to provide additional incentives and motivation for the Company's employees. The Committee, by majority action thereof, is authorized in its sole discretion to determine the individuals to whom the benefits will be granted, the type and amount of such benefits and the terms thereof; and to prescribe, amend and rescind rules and regulations relating to the Incentive Plan, among other things.

OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OF BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
					5% (\$)	10% (\$)
Ralph W. Gabbard	15,000	25.8%	\$ 13.33	3/30/00	\$ 55,242	\$ 122,071
William A. Fielder III	3,000	5.2%	\$ 13.33	3/30/00	\$ 11,048	\$ 24,414
Joesph A. Carriere	3,750	6.5%	\$ 13.33	3/30/00	\$ 13,811	\$ 30,518

(1) Amounts reported in these columns represent amounts that may be realized upon exercise of options immediately prior to the expiration of their term assuming the specified compounded rates of appreciation (5% and 10%) on the Class A Common Stock over the term of the options. These numbers are calculated based on rules promulgated by the SEC and do not reflect the Company's estimate of future stock price growth. Actual gains, if any, on stock option exercises and Class A Common Stock holdings are dependent on the timing of such exercise and the future performance of the Class A Common Stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the option holder.

STOCK OPTIONS EXERCISED

The following table sets forth information about unexercised stock options held by the named executives. No stock options were exercised by such officers during 1995.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION VALUES

NAME	NUMBER OF UNEXERCISED OPTIONS AT FY END (#) EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY END
		(\$) EXERCISABLE/UNEXERCISABLE (1)
Ralph W. Gabbard	0/45,509	\$0/\$318,553
William A. Fielder III	7,500/3,000	\$61,562/\$13,625
Joseph A. Carriere	0/3,750	\$0/\$17,031

(1) Closing price of the Class A Common Stock at December 31, 1995 was \$17 7/8 per share.

SUPPLEMENTAL PENSION PLAN

The Company has entered into agreements with certain key employees to provide these employees with supplemental retirement benefits. The benefits are disbursed after retirement in contractually predetermined payments of equal monthly amounts over the employee's life, or the life of a surviving eligible spouse, for a maximum of 15 years. The Company maintains life insurance coverage on these individuals in adequate amounts to fund the agreements.

RETIREMENT PLAN

The Company sponsors a defined benefit pension plan, intended to be tax qualified, for certain of its employees and the employees of any of its subsidiaries which have been designated as participating companies under the plan. A participating employee who retires on or after attaining age 65 and who has completed five years of service upon retirement may be eligible to receive during his lifetime, in the form of monthly payments, an annual pension equal to (i) 22% of the employee's average earnings for the highest five consecutive years during the employee's final 10 years of employment multiplied by a factor, the numerator of which is the employee's years of service credited under the plan before 1994 and the denominator of which is the greater of 25 or the years of service credited under the plan, plus (ii) .9% of the employees monthly average earnings for the highest five consecutive years in the employee's final ten years of employment added to .6% of monthly average earnings in excess of Social Security covered compensation, and multiplied by the employee's years of service credited under the plan after 1993, with a maximum of 25 years minus years of service credited under (i) above. For participants as of December 31, 1993, there is a minimum benefit equal to the projected benefit under (i) at that time. For purposes of illustration, pensions estimated to be payable upon retirement of participating employees in specified salary classifications are shown in the following table:

PENSION PLAN TABLE

REMUNERATION (1)	YEARS OF SERVICE					
	10	15	20	25	30	35
\$ 15,000.....	\$ 1,326	\$ 1,986	\$ 2,646	\$ 3,306	\$ 3,300	\$ 3,300
25,000.....	2,210	3,310	4,410	5,510	5,500	5,500
50,000.....	4,709	6,909	9,109	11,309	11,000	11,000
75,000.....	7,219	10,519	13,819	17,119	16,500	16,500
100,000.....	9,729	14,129	18,529	22,929	22,000	22,000
150,000.....	14,749	21,349	27,949	34,549	33,000	33,000
200,000.....	18,269	27,069	35,869	44,669	41,067	41,486
250,000 and above.....	19,622	29,268	38,914	48,560	45,014	45,473

(1) Five-year average annual compensation.

Employees may become participants in the plan, provided that they have attained age 21 and have completed one year of service. Average earnings are based upon the salary paid to a participating employee by a participating company. Pension compensation for a particular year as used for the calculation of retirement benefits includes salaries, overtime pay, commissions and incentive payments received during the year and the employee's contribution to the Capital Accumulation Plan (as defined). Pension compensation for 1995 differs from compensation reported in the Summary Compensation Table in that pension compensation includes any annual incentive awards received in 1995 for services in 1994 rather than the incentive awards paid in 1996 for services in 1995. The maximum annual compensation considered for pension benefits under the plan in 1995 was \$150,000.

As of December 31, 1995, full years of actual credited service in this plan are Mr. Williams -- 3 years; Mr. Fielder -- 4 years; and Mr. Carriere -- 1 year. Mr. Gabbard had no full years of credited service under the plan at December 31, 1995.

CAPITAL ACCUMULATION PLAN

Effective October 1, 1994, the Company adopted the Gray Communications Systems, Inc. Capital Accumulation Plan (the "Capital Accumulation Plan") for the purpose of providing additional retirement benefits for substantially all employees. The Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code of 1986 (the "Code").

Contributions to the Capital Accumulation Plan are made by the employees of the Company. The Company matches a percentage of each employee's contribution which does not exceed 6% of the employee's gross pay. The percentage match is made with a contribution of the Class A Common Stock, and is declared by the Board of Directors before the beginning of each Capital Accumulation Plan year. The percentage match declared for the year ended December 31, 1995 was 50%. The Company's matching contributions vest based upon an employee's number of years of service, over a period not to exceed five years. The Company has registered 150,000 shares of Class A Common Stock for issuance to the Capital Accumulation Plan.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT

In May 1992, John T. Williams, former President and Chief Executive Officer, entered into an employment agreement with the Company. This agreement provided for additional compensation based upon the performance of the Company's stock price over a five-year period ending in 1997. Under this agreement, the Company issued 150,000 shares of the Class A Common Stock (the "Common Stock Award"), with certain restrictions, in three separate awards, to Mr. Williams during 1995. The Company recorded approximately \$2.1 million in compensation expense in 1995 relating to these awards. In December 1995, Mr. Williams resigned his position as President, Chief Executive Officer and Director of the Company. Upon his resignation, the Company amended his existing employment agreement, to pay him consulting fees of approximately \$596,000 through November 1997, and to remove certain restrictions on the Common Stock Award, including among others, a time requirement for continued employment.

Ralph W. Gabbard and the Company entered into an employment agreement dated September 3, 1994, for a five year term. The agreement provides for annual compensation of \$250,000 during the term of the agreement (subject to yearly inflation adjustment) and entitles Mr. Gabbard to certain fringe benefits. In addition to his annual compensation, Mr. Gabbard is entitled to participate in an annual incentive compensation plan and the Incentive Plan. Under the annual incentive compensation plan, Mr. Gabbard is eligible to receive additional compensation if the operating profits of the broadcasting group of the Company reach or exceed certain goals. Under the Incentive Plan, Mr. Gabbard has received non-qualified stock options to purchase 30,509 shares of Class A Common Stock. These options are exercisable over a three-year period beginning September 1996. The exercise price for such options is \$9.66. Upon the fifth anniversary of Mr. Gabbard's employment with the Company, Mr. Gabbard shall receive 122,034 shares of Class A Common Stock. In February 1996, the Board of Directors approved an amendment, effective January 1, 1996, to increase his base salary from \$250,000 to \$300,000 and to provide for additional annual compensation of a minimum of \$200,000 if certain operating profit levels are achieved. Mr. Gabbard has agreed that during the term of his agreement and for two years thereafter, he will be subject to certain non-competition provisions.

William A. Fielder, III, Vice President and Chief Financial Officer of the Company, has an employment agreement with the Company dated April 1991, which was amended March 1993, to provide for the continuation of his annual salary (currently \$135,000) for a period of one year in the event of termination without cause.

Robert A. Beizer and the Company entered into an employment agreement dated February 12, 1996, for a two-year term which automatically extends for three successive one-year periods, subject to certain termination provisions. The agreement provides that Mr. Beizer shall be employed as Vice President for Law and Development of the Company with an initial annual base salary of \$200,000 and a grant of options to purchase 15,000 shares of Class A Common Stock with an exercise price of \$19.375 per share under the Incentive Plan at the inception of his employment. Mr. Beizer's base salary shall be increased yearly based upon a cost of living index and he will receive options to purchase 7,000 shares of Class A Common Stock

annually during the term of the agreement. All options granted are exercisable over a three-year period upon the second anniversary of the grant date. If there is a change of control of the Company, Mr. Beizer will be paid a lump sum amount equal to his then current base salary for the remaining term of the agreement and will be granted any remaining stock options to which he would have been entitled. Mr. Beizer has agreed that during the term of his agreement and for two years thereafter, he will be subject to certain non-competition provisions.

MANAGEMENT PERSONNEL COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The goals of the Company's executive compensation program for 1995 were to attract, retain, motivate and reward qualified persons serving as executive officers. To achieve such goals, the Company relies primarily on salaries, annual bonuses and stock options. The Management Personnel Committee makes recommendations with respect to executive salaries, bonuses and compensation for each of the Company's executive officers. The Company's executive compensation program is linked to corporate performance and return to shareholders. The Company has developed an overall compensation strategy and specific compensation plans that tie a significant portion of executive compensation to the Company's success in meeting specified performance goals and to appreciation in the Company's stock price. While the profitability of the Company is generally considered with respect to executive compensation, no specific thresholds or formulas are used. The factors considered by the Committee are typically subjective. The compensation of the Company's President is determined in the same manner as compensation of other executive officers and by the terms of his employment agreement.

The former chief executive officer was awarded 150,000 shares of the Company's Common Stock in three separate awards under his employment agreement based upon the Company's stock price attaining certain designated values. Upon his resignation the Company also amended his employment agreement to pay him consulting fees of approximately \$596,000 through November 1997 and remove certain restrictions on the common stock awarded, including among others, a time requirement for continued employment.

Mr. Gabbard's base salary was increased from \$250,000 to \$300,000 and to provide for additional annual compensation of a minimum of \$200,000 if certain operating profit levels are achieved effective upon his becoming President of the Company. The Management Personnel Committee believes that the increase in Mr. Gabbard's base salary and the incentive for an increased bonus is consistent with the responsibilities of his new position with the Company and his performance as measured by the criteria discussed above.

Submitted by Management Personnel Committee of the Board of Directors

Richard L. Boger, Chairman
Robert S. Prather, Jr.
J. Mack Robinson

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Robert S. Prather, Jr. and J. Mack Robinson are two members of the three member Management Personnel Committee. See "Certain Relationships and Related Transactions" for a description of certain business relationships between the Company and certain other affiliated companies of Messrs. Prather and Robinson.

PERFORMANCE GRAPH

The following graph compares, for the period from March 27, 1992 (when the Company's stock first became publicly traded) to December 31, 1995, the Company's total return on its Class A Common Stock as compared to stock market total return indexes for (i) the New York Stock Exchange, (ii) a New York Stock Exchange Industry Index based upon the Television Broadcasting Stations Standard Industrial Classification Code, and (iii) Nasdaq telecommunications stocks. In July 1995, the Company's Class A Common Stock was listed on the New York Stock Exchange. Therefore, as of such date, the Company has changed its peer group from the Nasdaq telecommunications group to the Television Broadcasting Stations Standard Industry Classification Group. The graph assumes that \$100 was invested in the Class A Common Stock in each such index on March 27, 1992 and all dividends were reinvested.

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

	MAR-92	DEC-92	DEC-93	DEC-94	DEC-95
Gray Communications Systems, Inc.	100	145.22	176.16	194.91	322.55
New York Stock Exchange	100	108.91	123.66	121.26	157.23
Television Broadcasting Stations (SIC Code 4833)	100	109.67	143.69	111.67	132.89
Nasdaq Telecommunications Stocks	100	120.02	185.07	153.01	184.17

RECENT DEVELOPMENTS

The Company has entered into discussions with certain investment bankers (the "Underwriters") and has filed registration statements under the Securities Act of 1933 with a view to the issuance and public offering of approximately 3,500,000 shares of its Class B Common Stock (the "Stock Offering") and \$150,000,000 aggregate principal amount (the "Note Offering") of the Company's senior subordinated notes due 2006 (the "Notes"). The Company currently anticipates that the proceeds of the Stock Offering and the Note Offering, if any, will be used to consummate the previously announced acquisition (the "Phipps Acquisition") of two CBS-affiliated television stations, WCTV and WKXT, as well as a satellite broadcasting business and a paging business in the Southeast (the "Phipps Business"). The closing of the Phipps Acquisition is subject to the satisfaction or waiver of a number of conditions, including the approval of the Federal Communications Commission (the "FCC"). The purchase price for the Phipps Business is approximately \$185 million, including fees, expenses and working capital and other adjustments. The consummation of the Phipps Acquisition is expected to occur by September 1996, although there can be no assurance with respect thereto. Additionally, there can be no assurance that the Company will issue the Class B Common Stock or the Notes in the near future or at all or that, if so issued, the amount of the consideration that the Company will receive therefor.

The Company has entered into a non-binding letter of intent to sell KTVE (the "KTVE Sale") for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of the closing (estimated to be approximately \$750,000), to the extent collected by the buyer, to be paid to the Company within 150 days following the date of closing. The closing of the KTVE Sale is expected to occur by September 1996, although there can be no assurance with respect thereto.

In addition to the consummation of the Phipps Acquisition and the KTVE Sale, the Company intends to implement a financing plan (the "Financing") to increase liquidity and improve operating and financial flexibility. Pursuant to the Financing, the Company will (i) repay approximately \$38.8 million aggregate principal amount of outstanding indebtedness under its senior secured credit bank facility (the "Senior Credit Facility"), together with accrued interest thereon and revise the terms thereof, (ii) issue \$10 million liquidation preference of its Series A Preferred Stock (the "Series A Preferred Stock") in exchange for its outstanding \$10 million aggregate principal amount 8% subordinated note (the "8% Note") issued to Bull Run Corporation, (iii) issue to certain affiliates \$10 million liquidation preference of its Series B Preferred Stock (the "Series B Preferred Stock" and together with the Series A Preferred Stock, the "Preferred Stock") with warrants to purchase up to 500,000 shares, representing 11.3% of the Class A Common Stock for cash proceeds of \$10 million and (iv) revise the terms of its \$25.0 million principal amount senior note due 2003 (the "Senior Note"). For additional information concerning the issuance of the Preferred Stock and the warrants, see "Certain Relationships and Related Transactions -- Issuances of Preferred Stock." The cash required for the consummation of the Phipps Acquisition, the repayment of indebtedness and related transaction costs will be provided by the net proceeds of the Stock Offering and the Note Offering, the sale of the Series B Preferred Stock and the warrants and the KTVE Sale. The consummation of the Note Offering is conditioned upon the consummation of the Financing and the Stock Offering, but is not conditioned upon the consummation of the Phipps Acquisition or the KTVE Sale. However, the Notes are subject to a mandatory redemption at a redemption price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest to the date fixed for redemption if the Phipps Acquisition is not consummated prior to a specified date. The consummation of the Stock Offering is not conditioned upon the concurrent consummation of the Financing, the KTVE Sale, the Phipps Acquisition or the Note Offering.

THIS PROXY STATEMENT IS NOT A PROSPECTUS OR OFFERING DOCUMENT AND SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SECURITIES.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Gray Kentucky Television, Inc., a subsidiary of the Company ("Gray Kentucky"), is a party to a University of Kentucky Television Agreement with Host Communications, Inc. ("Host"), pursuant to which Gray Kentucky is licensed by Host to broadcast University of Kentucky football and basketball games. In addition, Gray Kentucky provides Host with production services in connection with televising broadcasts of University of Kentucky football and basketball games pursuant to a rights sharing agreement. During the year ended December 31, 1995, the Company received approximately \$332,000 resulting from these arrangements.

Bull Run Corporation currently owns 51.5% of the outstanding common stock of Capital Sports Properties, Inc. ("CSP"). CSP's assets consist of all of the outstanding preferred stock of Host and warrants to purchase Host common stock. Bull Run Corporation also owns approximately 9.4% of Host's currently outstanding common shares directly, thereby giving Bull Run Corporation total direct and indirect ownership of Host of approximately 29.7%, assuming conversion of all currently outstanding exercisable stock options and warrants for Host common stock. Ralph W. Gabbard and Robert S. Prather, Jr., members of the Company's Board of Directors, are members of the Board of Directors of both CSP and Host.

The Company's Board of Directors approved payments to Bull Run Corporation of finders fees for the acquisition of the GWINNETT DAILY POST (the "Gwinnett Acquisition"), WRDW-TV, a CBS affiliate serving the Augusta, Georgia area (the "Augusta Acquisition") and the Phipps Acquisition. The Company agreed to pay finders fees of \$75,000 and \$360,000 in connection with the Gwinnett Acquisition and Augusta Acquisition, respectively. The Board of Directors has agreed to pay a finders fee of 1% of the proposed purchase price of the Phipps Acquisition for services performed, of which \$550,000 was due and included in accounts payable at December 31, 1995.

On January 3, 1996, Bull Run Corporation purchased for \$10 million from the Company (i) the 8% Note and (ii) warrants to purchase 487,500 shares of Class A Common Stock at \$17.88 per share, 300,000 of which are currently fully vested, with the remaining warrants vesting in five equal annual installments

commencing January 3, 1997, provided that the 8% Note is outstanding. The warrants must be approved by the Company's Shareholders. See "Issuance of Warrants to Bull Run Corporation." The warrants may not be exercised prior to January 1998 and expire in January 2006. The exercise price and number of shares issuable upon exercise of these warrants will be subject to adjustment from time to time upon the occurrence of certain changes with respect to the Class A Common Stock, such as stock dividends, stock splits, mergers and similar events. The holder of these warrants does not have the right to receive dividends or other rights of shareholders of the Company. The Company obtained a "fairness opinion" from The Robinson-Humphrey Company, Inc., one of the proposed Underwriters of the Stock Offering and the Note Offering, relative to the terms and conditions of the 8% Note.

In connection with the issuance by the Company of a \$10 million letter of credit in connection with the Phipps Acquisition, J. Mack Robinson, a director of the Company, executed a put agreement in favor of the letter of credit issuer which such issuer can exercise if the Company defaults on the repayment of amounts in accordance with the terms of the letter of credit.

ISSUANCES OF PREFERRED STOCK AND WARRANTS

As part of the Financing, the 8% Note will be retired and the Company will issue to Bull Run Corporation, in exchange therefor, 1,000 shares of Series A Preferred Stock. Subject to certain limitations, holders of the Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds of the Company legally available for payment, cash dividends at an annual rate of \$800 per share. The Series A Preferred Stock has priority as to dividends over the Class A Common Stock and Class B Common Stock (the "Common Stock") and any other series or class of the Company's stock which ranks junior as to dividends as to Series A Preferred Stock. In case of the voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Stock will be entitled to receive a liquidation price of \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the payment date, before any payment or distribution is made to the holders of Common Stock or any other series or class of the Company's stock which ranks junior as to liquidation rights as to the Series A Preferred Stock. The Series A Preferred Stock may be redeemed at the option of the Company, in whole or in part, at \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the redemption date, and such redemption price may be paid, at the Company's option, in cash or in shares of Class A Common Stock. The holders of shares of Series A Preferred Stock will not be entitled to vote on any matter except (i) with respect to the authorization or issuance of capital stock ranking senior to the Series A Preferred Stock and with respect to certain amendments to the Company's Articles of Incorporation, (ii) if the Company shall have failed to declare and pay dividends on the Series A Preferred Stock for any six quarterly payment periods, in which event the holders of the Series A Preferred Stock shall be entitled to elect two additional directors to the Company's Board of Directors until the full dividends accumulated have been declared and paid and (iii) as required by law. In addition, without the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock, the Company may not authorize or issue a class or series of security convertible into capital stock ranking senior to the Series A Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation or adversely change the preferences or powers of the 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.

In addition, as part of the Financing, the Company will issue to Bull Run Corporation of the Company, for \$10 million, 1,000 shares of Series B Preferred Stock. Subject to certain limitations, holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds of the Company legally available for payment, dividends at an annual rate of \$600 per share, except that the Company at its option may pay such dividends in cash or may add the amount of such dividends to the then effective liquidation price of the Series B Preferred Stock. The Series B Preferred Stock has priority as to dividends over the Common Stock and any other series or class of the Company's stock which ranks junior as to dividends as to the Series B Preferred Stock. In case of the voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Series B Preferred Stock will be entitled to receive a liquidation price of \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the payment date, before any payment or distribution is made to the holders of Common Stock or any other

series or class of the Company's stock which ranks junior as to liquidation rights to the Series B Preferred Stock. The Series B Preferred Stock may be redeemed at the option of the Company, in whole or in part, at any time or from time to time, at \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the redemption date, and such redemption price may be paid, at the Company's option, in cash or in shares of Class A Common Stock. The holders of shares of Series B Preferred Stock will not be entitled to vote on any matter except (i) with respect to the authorization or issuance of capital stock ranking senior to the Series B Preferred Stock and with respect to certain amendments to the Company's Articles of Incorporation, (ii) if the Company shall have failed to declare and pay dividends on the Series B Preferred Stock for any six quarterly payment periods, in which event the holders of the Series B Preferred Stock shall be entitled to elect two additional directors to the Company's Board of Directors until the full dividends accumulated have been declared and paid and (iii) as required by law. In addition, without the affirmative vote of the holders of a majority of the outstanding shares of Series B Preferred Stock, the Company may not authorize or issue a class or series of security convertible into, capital stock ranking senior to the Series B Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation or voting rights or adversely change the preferences or powers of the Series B Preferred Stock.

In connection with the issuance of the Series B Preferred Stock as part of the Financing, (i) the Company will issue to Bull Run Corporation, warrants entitling the holder thereof to purchase 500,000 shares of Class A Common Stock at an exercise price equal to \$24.00 per share. Of these warrants, 300,000 will vest upon issuance, with the remaining warrants vesting in five equal installments commencing on the first anniversary of the date of issuance. The warrants must be approved by the Company's shareholders. See "Issuance of Additional Warrants to Bull Run Corporation." They may not be exercised prior to the second anniversary of the date of issuance and will expire on the tenth anniversary of the date of issuance. The exercise price and number of shares issuable upon exercise of these warrants will be subject to adjustment from time to time upon the occurrence of certain changes with respect to the Class A Common Stock, such as stock dividends, stock splits, mergers and similar events. The holder of these warrants does not have the right to receive dividends or other rights of shareholders of the Company. The Company will obtain a "fairness opinion" from The Robinson-Humphrey Company, Inc., one of the proposed underwriters of the Stock Offering and Note Offering relative to the terms and conditions of the Series B Preferred Stock and the warrants.

AMENDMENT TO THE ARTICLES OF INCORPORATION
(ITEM TWO)

The Board of Directors has adopted a resolution unanimously approving and recommending to the Company's shareholders for their approval, an amendment to the Company's Articles of Incorporation to provide therein for an increase to 50,000,000 the number of shares of all classes which the Company has authority to issue. The Company's Articles of Incorporation currently authorizes the issuance of 40,000,000 shares, of which 10,000,000 shares are designated Class A Common Stock with no par value and possess all voting powers (one vote per share); 10,000,000 shares are designated Class B Common Stock with no par value which have no voting power; and 20,000,000 shares are designated "blank check" preferred stock for which the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms and conditions of redemption (collectively the "Limitations and Restrictions") are determined by the Board of Directors of the Company. As such, the Board of Directors of the Company is entitled to authorize the creation and issuance of up to 20,000,000 shares of preferred stock in one or more series with such Limitations and Restrictions as may be determined in the Board's sole discretion with no further authorization by security holders required for the creation or issuance thereof.

The Amendment would provide that 15,000,000 shares would be designated Class A Common Stock with no par value and shall possess 10 votes per share, and 15,000,000 shares shall be designated Class B Common Stock, no par value and shall possess one vote per share. The Amendment provides that each presently issued and outstanding share of Class A Common Stock having one vote per share will be converted automatically to one share of Class A Common Stock having 10 votes per share. The Amendment

would also establish certain shareholder rights ("Class B Rights"), which are intended to insure that a buyer to acquire 100% of the Class A Common Stock tender for the issued and outstanding Class B Common Stock.

Although the Class B Rights might make the Company a less attractive target for a takeover bid, the Class B Rights gives holders of the Class B Common Stock the opportunity to participate in any premium that might be paid for the purchase of 100% of the Class A Common Stock.

If, after June 27, 1996, any person or group acquires beneficial ownership of 100% of the Class A Common Stock (a "Significant Shareholder"), and such person or group does not immediately after such acquisition beneficially own 100% of Class B Common Stock, the Class B Rights require that such Significant Shareholder, within a 90-day period beginning the day after becoming a Significant Shareholder, commence a public tender offer to acquire 100% of the shares of Class B Common Stock (a "Class B Protection Transaction"). The requirement to engage in a Class B Protection Transaction is satisfied by making the requisite offer and purchasing validly tendered shares, even if the number of shares tendered is less than 100%. The Rights cannot be amended without the approval of the holders of a majority of the Class A Common Stock and a majority of the Class B Common Stock, voting separately as classes.

The offer price for 100% of the shares of Class B Common Stock required to be purchased by the Significant Shareholder pursuant to a Class B Protection Transaction must be the greater of (i) the highest price per share paid by the Significant Shareholder for either class of Common Stock in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest price per share of either class of Common Stock on The New York Stock Exchange (or such other quotation system or securities exchange constituting the principal trading market for either class of Common Stock) during the 30 calendar days preceding the acquisition of 100% of the shares of Class A Common Stock.

If a Significant Shareholder fails to undertake a Class B Protection Transaction, the voting rights of the shares of Class A Common Stock beneficially owned by such Significant Shareholder that exceeded such holder's comparable percentage of Class B Common Stock would be suspended until completion of a Class B Protection Transaction or until divestiture of the shares of Class A Common Stock that triggered such requirement. To the extent that the voting power of any shares of Class A Common Stock is so suspended, such shares will not be included in the determination of aggregate voting shares for any purpose. Neither the Class B Protection Transaction requirement nor the related penalty applies to any increase in percentage ownership of Class A Common Stock resulting solely from a change in the total amount of Class A Common Stock outstanding.

For purposes of the Class B Rights, the terms "beneficial ownership" and "group" generally have the same meanings as used in Regulation 13D promulgated under the Exchange Act, subject to certain exceptions set forth in the Company's Articles of Incorporation. In addition, only shares of Class B Common Stock acquired by a Significant Shareholder for an "equitable price" shall be treated as being beneficially owned by such Significant Shareholder. An "equitable price" will be deemed to have been paid only when shares of Class B Common Stock have been acquired at a price at least equal to the greater of (i) the highest price per share paid by the Significant Shareholder for either class of the Common Stock in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest price per share of either class of Common Stock on the New York Stock Exchange (or such other quotation system or securities exchange constituting the principal trading market for either class of Common stock) during the 30 calendar days preceding the date such person or group became a Significant Shareholder.

The Class B Rights do not prevent any person or group from acquiring 100% of the Class A Common Stock, provided that such person or group acquires 100% of the Class B Common Stock at the same or greater price, undertakes a Class B Protection Transaction or suffers suspension of the voting rights of the shares of Class A Common Stock as provided by the Class B Rights. If a Class B Protection Transaction is required, the purchase price to be paid in such offer may be higher than the price at which a Significant Shareholder might otherwise be able to acquire of the Class B Common Stock. Such requirement, therefore, could make an acquisition of the Company more expensive and, if a Class B Protection Transaction is required, time consuming, than if such requirement did not exist. Consequently, a person or group might be

deterred from acquiring the Company as a result of such requirement. Moreover, by restricting the ability of an acquiror to acquire the Class A Common Stock paying a premium for such stock without acquiring, or paying a similar premium for, Class B Common Stock, the Class B Rights should help to reduce or eliminate any discount on either class of Common Stock.

In order to effect the foregoing, the Board of Directors has unanimously approved and recommends that the shareholders approve the proposed amendment to Article 4 of the Articles of Incorporation of the Company substantially in the form attached hereto as Appendix A.

The purpose of this proposal is to provide additional authorized Common Stock for corporate purposes such as equity offerings, employee benefit and stock option plans, future stock splits and future acquisitions and to create a Class B Common Stock with one vote per share to be used in the Stock Offering. See "Recent Developments."

The affirmative vote of the holders of a majority of the outstanding shares of the Class A Common Stock is required to approve the Amendment.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION.

AMENDMENT TO THE BYLAWS
(ITEM THREE)

The Board of Directors of the Company has unanimously adopted a resolution approving and recommending to the Company's shareholders for their approval, an amendment to the Company's Bylaws authorizing an amendment to the Articles of Incorporation to provide for two classes of voting stock of the Company. The amendment to the Bylaws, if adopted, would delete the present provision of the Bylaws that each outstanding share of Company stock entitled to vote shall be entitled to one vote upon each matter submitted to a vote of a meeting of shareholders. The text of the proposed amendment to the Bylaws is attached hereto as Appendix B.

The affirmative vote of the holders of a majority of the outstanding shares of the Class A Common Stock is required to approve the amendment of the Bylaws.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE AMENDMENT TO THE COMPANY'S BYLAWS.

AMENDMENT TO THE
COMPANY'S 1992 LONG-TERM INCENTIVE PLAN
(ITEM FOUR)

In 1992, the Board of Directors adopted and the shareholders of the Company approved, the Incentive Plan which provides for the granting of stock options and other stock-based awards to key employees of the Company. The total number of shares of Class A Common Stock issuable under the Incentive Plan was not to exceed 400,000 shares, subject to adjustment in the event of any change in the outstanding shares of such stock by reason of a stock dividend, stock split, recapitalization, merger, consolidation or other similar changes generally affecting shareholders of the Company. The Company effected a 3-for-2 split of the Class A Common Stock in the form of a stock dividend on October 2, 1995 resulting in 600,000 shares being available for issuance under the Incentive Plan.

The Board of Directors believes that the Incentive Plan will advance the interests of the Company and its shareholders by providing additional incentives and motivation toward superior performance and by enabling the Company and its subsidiaries to attract and retain the services of key employees, upon whose judgment, talents and special efforts the successful conduct of its operations is largely dependent.

The Incentive Plan is administered by the members of the Management Personnel Committee of the Board of Directors (the "Committee"), who are not eligible for selection as a participant under the Incentive Plan. The Committee, by majority action thereof, is authorized in its sole discretion to determine the individuals to whom the benefits will be granted, the type and amount of such benefits and the terms of benefit grants; to interpret the Incentive Plan; to prescribe, amend and rescind rules and regulations relating to the Incentive Plan; and to make all other determinations necessary or advisable for the administration of the Incentive Plan to the extent not contrary to the express provisions of the Incentive Plan. The complete text of the Incentive Plan with the proposed amendments is set forth in Appendix C to this Proxy Statement. The following summary of certain provisions of the Incentive Plan and the proposed amendments is qualified in its entirety by reference to the full text of the Incentive Plan. The amendments will not become effective unless shareholder approval is obtained.

INCENTIVE PLAN DESCRIPTION

Under the terms of the Incentive Plan, key employees of the Company and its subsidiaries (as determined by the Committee in its sole discretion) will be eligible to receive (a) stock options ("Stock Options") which may or may not qualify as incentive stock options within the meaning of Section 422 of the Code, (b) stock appreciation rights ("SARs"), (c) restricted stock of the Company ("Restricted Stock") and/or (d) performance awards ("Performance Awards"). Of the 600,000 shares of Class A Common Stock issuable under the Incentive Plan, no more than 150,000 shares may be issued as Restricted Stock.

AWARDS UNDER THE INCENTIVE PLAN

STOCK OPTIONS. Stock Options granted under the Incentive Plan shall entitle the holder thereof to purchase shares of Class A Common Stock at the base price established therefor by the Committee, which price, in the case of incentive stock options, shall not be less than the "Fair Market Value" (as defined in the Incentive Plan) of the Class A Common Stock at the time of grant. Such Stock Options are exercisable in the discretion of the Committee at any time from and after the six-month anniversary date of the grant during the option exercise period. In no event will Stock Options be exercisable later than ten years after the date of the grant. Stock Options outstanding and unexercised at the time of the death, disability or retirement of the holder generally shall terminate on the first to occur of either the expiration date thereof or the expiration of twelve months after the date of such event (except in the case of an incentive stock option, which shall expire not later than three months after termination of employment upon retirement of the holder). Upon termination of the employment of the holder for any other reason Stock Options shall not remain exercisable later than three months after the date of such event or, if earlier, the expiration date of such option.

There is no maximum or minimum number of shares for which a Stock Option may be granted; however, for any employee, the aggregate Fair Market Value of Class A Common Stock subject to incentive stock options pursuant to the Incentive Plan or any other stock option plan of the Company that are exercisable for the first time in any calendar year may not exceed \$100,000.

SARS. An SAR gives to the holder thereof a right to receive, at the time of surrender, cash or Class A Common Stock or a combination thereof equal in value to the difference between the Fair Market Value of the Class A Common Stock at the date of surrender of the SAR and the base price established by the Committee therefor at the time of grant. The base price established on any SAR shall not be less than the Fair Market Value of the Class A Common Stock on the date of the grant of the SAR. The Committee may impose any limitation that it may determine in its discretion on the maximum amount of appreciation to be paid pursuant thereto. An SAR may be granted either independent of, or in conjunction with, any Stock Option. If granted in conjunction with a Stock Option, at the discretion of the Committee, an SAR may either be surrendered (a) in lieu of the exercise of such Stock Option, (b) in conjunction with the exercise of such Stock Option, or (c) upon lapse of such Stock Option.

The term of an SAR shall be established by the Committee. Rights in respect of an SAR surrenderable in conjunction with a Stock Option shall expire upon the death, disability, retirement or termination of employment of the holder thereof at times similar to those established in respect of such related Stock Options. Rights with respect to an SAR surrenderable independent of a Stock Option will be on the terms and conditions established by the Committee.

RESTRICTED STOCK. The Committee may issue shares of the Class A Common Stock to a designated employee at a purchase price, if any, determined by the Committee. Such Restricted Stock may be subject to forfeiture or repurchase in the event of the termination of employment within a specified period or in the event any other conditions specified by the Committee at the time of grant are not subsequently met. During the period of restriction, holders of Restricted Stock shall be entitled to receive and retain all dividends and other distributions made in respect of such stock and to vote such stock without limitations.

PERFORMANCE AWARDS. The Committee may grant Performance Awards which may consist of shares of Class A Common Stock, monetary units or a combination thereof. In the event that certain performance goals are achieved over a designated period of time, the Performance Awards will be made in a predesignated form in a single payment or in installments as the Committee determines in its sole discretion. The goals established by the Committee may include return on average total capital employed, earnings per share, return on shareholders' equity and such other goals as may be established by the Committee. The participant shall have no right to vote any shares of Class A Common Stock subject to a Performance Award, nor shall such participant have any right to receive dividends on such shares until the performance goals are achieved and the shares are issued.

CHANGE OF CONTROL OF THE COMPANY. In the event of a "Change of Control" (as defined in the Incentive Plan), if provided by the terms of the participant's award agreement, the following shall occur: (a) Stock

Options, if not otherwise exercisable, become immediately exercisable; (b) unexercised Stock Options automatically include an SAR feature for a period of six months and seven days after the date of a Change of Control, which is in addition to any SAR separately granted in connection with such Stock Option; (c) SARs become, if not otherwise then surrenderable, immediately surrenderable; (d) restrictions lapse on Restricted Stock already earned, and such Restricted Stock becomes immediately vested; and (e) any outstanding Performance Award shall be deemed to be fully earned and all payments on such awards shall be made in a lump sum.

AMENDMENT AND TERMINATION. The Incentive Plan is to remain in effect until (a) all Class A Common Stock reserved under the Incentive Plan shall have been purchased or acquired; (b) the Board terminates the Incentive Plan; or (c) July 1, 2002, whichever shall first occur. The Board at any time may terminate and, from time to time, may amend or modify terms of the Incentive Plan; provided, however, that no such action of the Board may, without the approval of the shareholders of the Company: (a) increase the total amount of stock or increase the amount and type of awards that may be issued under the Incentive Plan; (b) change the provisions of the Incentive Plan regarding the minimum price, if any, of awards, or (c) change the class of employees entitled to participate in the Incentive Plan. No amendment, modification or termination of the Incentive Plan may in any manner adversely affect any awards theretofore granted under the Incentive Plan without the consent of the participant affected thereby. In addition, awards may be substituted or exchanged for other awards under the Incentive Plan by mutual agreement of the Company and the participant.

THE PROPOSED AMENDMENTS

Because of the limited number of remaining Class A Common Stock and because of the proposed offering of the newly created Class B Common Stock, with voting power, (upon Shareholder approval) the Board of Directors believes it is appropriate at this time to change the shares to be awarded under the Incentive Plan to Class B Common Stock and to authorize additional shares for issuance under the Incentive Plan. Therefore, on February 22, 1996, the Board of Directors adopted the following resolution:

"RESOLVED, that subject to the approval of the shareholders of the Company of the Amendment to the Articles of Incorporation to provide for Class B Common Stock, the 1992 Long-Term Incentive Plan is hereby amended to delete Subsection "u" of Section II in its entirety and substitute in lieu thereof the following:

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

"RESOLVED FURTHER, that all reserved and unissued shares of Class A Common Stock are hereby no longer reserved for use in the 1992 Long-Term Incentive Plan and Section IV of the Plan is hereby amended to reserve for issuance of the Plan an aggregate of 400,000 shares of Class B Common Stock."

FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the principal Federal income tax consequences of transactions under the Incentive Plan. It does not describe all Federal tax consequences, nor does it address possible state, local or foreign tax consequences.

No income will be realized by a participating officer or employee on the grant of an incentive stock option or an option which is not an incentive stock option ("nonqualified option") or upon the award of Restricted Stock, or the grant of an SAR, and the Company will not be entitled to a deduction at such time. If a holder exercises an incentive stock option and does not dispose of the shares acquired within two years from the date of the grant, or within one year from the date of exercise of the option, no income will be realized by the holder at the time of exercise. The exercise of an incentive stock option may subject the holder to the alternative minimum tax. The Company will not be entitled to a deduction by reason of the exercise.

If a holder disposes of the shares acquired pursuant to an incentive stock option within two years from the date of grant of the option or within one year from the date of exercise of the option, the holder will

realize ordinary income at the time of disposition which will equal the excess, if any, of the lesser of (a) the amount realized on the disposition, or (b) the Fair Market Value of the shares on the date of exercise, over the holder's basis in the shares. The Company will be entitled to a deduction in an amount equal to such income in the year of such disposition, provided the Company complies with applicable rules and regulations of the Code, including Section 162(m) of the Code.

Upon the exercise of a nonqualified option, the excess, if any, of the Fair Market Value of the stock on the date of exercise over the purchase price is ordinary income to the holder as of the date of exercise. The Company will be entitled to a deduction equal to such excess amount in the year of exercise, provided the Company complies with applicable rules and regulations of the Code, including Section 162(m) of the Code.

Subject to voluntary election by the holder under Section 83(b) of the Code, a holder will realize income as a result of the award of Restricted Stock at the time the restrictions expire on such shares. An election pursuant to Section 83(b) of the Code would have the effect of causing the holder to realize income in the year in which such award was granted. The amount of income realized will be the difference between the Fair Market Value of the shares on the date that such restrictions expire (or on the date of issuance of the shares, in the event of a Section 83(b) election) over the purchase price, if any, of such shares. The Company will be entitled to a deduction equal to the income realized in the year in which the holder is required to report such income, provided the Company complies with applicable rules and regulations of the Code, including Section 162(m) of the Code.

A holder will realize income as a result of the surrender of an SAR at the time the stock is issued or the cash is paid. The amount of income realized will be equal to the Fair Market Value of shares issued on the date of surrender of the SAR, plus the amount of cash, if any received. The Company will be entitled to a deduction equal to the income realized in the year in which the SAR is surrendered for payment. A participant will recognize income with respect to a Performance Award at the time the shares are issued or the cash is paid after the award is earned. The amount of income realized will be equal to the Fair Market Value of the award on the date it was paid. The Company will be entitled to a deduction equal to the income realized in the year that the award was paid, provided the Company complies with applicable rules and regulations of the Code, including Section 162(m) of the Code.

The affirmative vote of the holders of a majority of the outstanding shares of the Class A Common Stock is required to approve the proposed amendment to the Incentive Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ADOPTION OF THE AMENDMENTS TO THE COMPANY'S 1992 LONG TERM INCENTIVE PLAN.

ISSUANCE OF WARRANTS TO BULL RUN CORPORATION
(ITEM FIVE)

On January 3, 1996, the Company issued (i) the 8% Note to Bull Run Corporation and (ii) warrants to purchase 487,500 shares of Class A Common Stock at \$17.88 per share subject to approval of a majority of the Company's shareholders. See "Certain Relationships and Related Transactions -- Issuance of Preferred Stock and Warrants." In accordance with the regulations of the New York Stock Exchange, the Company is seeking the approval of the shareholders of the Company of the issuance of such warrants to Bull Run Corporation.

The affirmative vote of the holders of a majority of the outstanding shares of the Class A Common Stock is required to approve the issuance of the warrants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE ISSUANCE OF THE WARRANTS TO BULL RUN CORPORATION.

ISSUANCE OF ADDITIONAL WARRANTS TO BULL RUN CORPORATION
(ITEM SIX)

As part of the Financing, the Company proposes to issue to Bull Run Corporation 1,000 shares of Series B Preferred Stock and warrants to purchase an aggregate of 500,000 shares of Class A Common Stock at an exercise price of \$24.00 per share subject to approval of a majority of the Company's shareholders. See "Certain Relationships and Related Transactions -- Issuance of Preferred Stock and Warrants." In accordance with the regulations of The New York Stock Exchange, the Company is seeking the approval of the shareholders of the Company of the issuance of the warrants to Bull Run Corporation.

The affirmative vote of the holder of a majority of the outstanding shares of the Class A Common Stock is required to approve the issuance of the warrants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE ISSUANCE OF THE WARRANTS TO BULL RUN CORPORATION.

AMENDMENT TO THE NON-QUALIFIED STOCK OPTION PLAN
FOR THE NON-EMPLOYEE DIRECTORS OF THE COMPANY
(ITEM SEVEN)

On February 22, 1996, the Board of Directors of the Company approved a Special Committee's recommendation of an amendment to the Non-Qualified Stock Option Plan for the non-employee directors of the Company. The following resolution was adopted by the Board of Directors to become effective upon the approval by the shareholders of the Company of the Amendment to the Articles of Incorporation to provide for Class B Common Stock having one vote per share:

"RESOLVED, that subject to the approval of the shareholders at the Annual Meeting of Shareholders in 1996, beginning in 1996 and each year thereafter, each non-employee director of the Company shall be granted the opportunity to purchase up to 7,500 shares of the Company's Class B Common Stock directly from the Company by the end of the first month following the close of the Company's fiscal year at a price per share approximating the recent market price at the time of grant. Such maximum amount shall be automatically adjusted for any stock dividends, splits, or other similar distributions as they occur. The exact number of shares or price per share shall be determined by the Management Personnel Committee of the Board of Directors each year, and the Company's non-qualified Stock option plan for non-employee directors shall be amended to provide for the foregoing"

The Company compensates non-employee directors because of the judgment and experience they provide, the responsibility they assume, and the time and effort they expend in informing themselves about the Company's business and participating in meetings of the Board and its committees. In the opinion of the Company's management, compensation of non-employee directors should be fair, reasonable and competitive with what other companies of its size provide so that the Company would not be disadvantaged in seeking to attract and retain highly qualified directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE AMENDMENT TO THE NON-QUALIFIED STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS.

APPOINTMENT OF INDEPENDENT AUDITORS OF COMPANY
(ITEM EIGHT)

The Board of Directors has appointed Ernst & Young LLP, certified public accountants, as independent auditors of the Company and its subsidiaries for the year ending December 31, 1996. The appointment of this firm was recommended to the Board by the Audit Committee.

Ernst & Young LLP has served the Company and its subsidiaries in this capacity since 1967. The firm has advised the Company that neither the firm nor any of its partners holds any direct financial interest or any material indirect financial interest in the Company or any of its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

One or more representatives of Ernst & Young LLP will be present at this year's Annual Meeting of Shareholders, will have an opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

The Board of Directors recommends the appointment of Ernst & Young LLP as independent auditors for the Company. If the appointment is not approved by a majority of the votes cast at the meeting on this proposal, the appointment of independent auditors will be reconsidered by the Board.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE APPOINTMENT OF AUDITORS.

OTHER INFORMATION

All information contained in this Proxy Statement relating to the occupations and security holdings of directors and officers of the Company is based upon information received from the individual directors and officers.

SHAREHOLDER PROPOSALS FOR PRESENTATION AT NEXT ANNUAL MEETING

Any proposal of a shareholder of the Company to be presented at the next Annual Meeting of the Shareholders of the Company must be received by the Secretary of the Company at the address set forth below on or before February 26, 1997 for inclusion in the Company's proxy statement and form of proxy relating to that meeting.

The above notice and proxy statement are sent by order of the board of directors.

Robert A. Beizer
SECRETARY

Dated: June 6, 1996

APPENDIX A

ARTICLES OF AMENDMENT
OF
GRAY COMMUNICATIONS SYSTEMS, INC.

1.

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

2.

The Articles of Incorporation of the Corporation are amended by striking paragraphs one and two of Article 4 and the section entitled "Common Stock" of Article 4 thereof in their entirety and inserting in lieu thereof amended paragraphs one and two of Article 4 and an amended section entitled "Common Stock" of Article 4 as set forth in Exhibit A attached hereto.

3.

Upon the filing of these Articles of Amendment with the Secretary of State of the State of Georgia (the "Effective Date"), and without any further action on the part of the Corporation or its shareholders, each share of the Corporation's Class A Common Stock, no par value, one vote per share (the "Existing Class A Common Stock"), then issued (including shares held in the treasury of the Corporation) shall automatically be reclassified, changed and converted into one share of Class A Common Stock, no par value, having ten votes per share. Certificates previously representing shares of Existing Class A Common Stock shall be deemed to represent shares of Class A Common Stock.

4.

Upon the Effective Date and without any further action on the part of the Corporation or its shareholders, each share of the Corporation's Class B Common Stock, no par value, non voting (the "Existing Class B Common Stock") then issued (including shares held in the treasury of the Corporation) shall automatically be reclassified, changed and converted into one share of Class B Common Stock, no par value, having one vote per share. Certificate previously representing shares of Existing Class B Common Stock shall be deemed to represent shares of Class B Common Stock.

5.

This amendment was duly adopted by the shareholders of the Corporation on June 27, 1996, in accordance with the provisions of O.C.G.A. 14-2-1003.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be executed by its duly authorized officer on this the _____ day of _____, 1996.

GRAY COMMUNICATIONS SYSTEMS, INC.

By: _____

Its: _____

4.

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

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

COMMON STOCK

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

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

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

(c) CLASS B PROTECTION FEATURE.

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

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

(3) The offer price for any shares of Class B Common Stock required to be purchased by a Significant Shareholder pursuant to a Class B Protection Transaction shall be the greater of (i) the highest price per share paid by the Significant Shareholder for any share of Class A Common Stock or Class B Common Stock (whichever is higher) in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest closing price of a share of Class A Common Stock or Class B Common Stock (whichever is higher) on The New York Stock Exchange (or such other quotation system or securities exchange constituting the principal trading market for either class of Common Stock) during the 30 calendar days preceding the date such

person or group became a Significant Shareholder. If the Significant Shareholder has acquired Class A Common Stock or Class B Common Stock in the six-month period ending on the date such person or group becomes a Significant Shareholder for consideration other than cash, the value of such consideration per share of Class A Common Stock or Class B Common Stock shall be as determined in good faith by the Board of Directors.

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

(5) If a Significant Shareholder fails to make an offer required by this subsection (c) of the section entitled "Common Stock" of this Article 4, or to purchase shares validly tendered and not withdrawn (after proration, if any), such Significant Shareholder shall not be entitled to vote any shares of Class A Common Stock beneficially owned by such Significant Shareholder and acquired by such Significant Shareholder after the Effective Date unless and until such requirements are complied with or unless and until all shares of Class A Common Stock causing such offer required to be effective are no longer owned by such Significant Shareholder. To the extent that the voting power of any shares of Class A Common Stock is so suspended, such shares will not be included in the determination of aggregate voting shares for any purpose under these Articles of Incorporation or the Georgia Business Corporation Code.

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

(7) For purposes of this subsection (c) of the section entitled "Common Stock" of this Article 4, the term "person" means a natural person, company, government, or political subdivision, agency or instrumentality of a government, or other entity. The terms "beneficial ownership" and "group" have the same meanings as used in Regulation 13D promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to the following qualifications: (i) relationships by blood or marriage between or among any persons will not constitute any of such persons a member of a group with any other such persons, absent affirmative attributes of concerted action; (ii) any person acting in his official capacity as a director or officer of the Corporation shall not be deemed to beneficially own shares of Common Stock where such beneficial ownership exist solely by virtue of such person's status as a trustee (or similar position) with respect to shares of Common Stock held by plans or trusts for the general benefit of employees or retirees of the Corporation, and actions taken or agreed to be taken by him in such official capacity or in any other official capacity will not be deemed to constitute such a person a member of a group with any other person; and (iii) formation of a group will not be deemed to be an acquisition by the group (or any member thereof) of beneficial ownership of any shares of Class A Common Stock then owned by a group member and acquired by such member from the Corporation, by operation of law, by will or the laws of descent or distribution, by charitable contribution or gift, or by foreclosure of a bona fide loan. Furthermore, for the purposes of calculating the number of shares of Class B Common Stock beneficially owned by such shareholder or group; (a) shares of Class B Common Stock acquired by gift shall be deemed to be beneficially owned by such shareholder or member of such group only if such gift is made in good faith and not for the purposes of circumventing the Class B Protection Feature; (b) only shares of Class B Common Stock owned of record by such shareholder or member of such group, or held by others as nominees of such shareholder or member and identified as such to the Corporation, shall be deemed to be beneficially owned by such shareholder or group (provided that shares with respect to which such shareholder or member has sole investment and voting power shall be deemed to be beneficially owned thereby); and (c) only shares of Class B Common Stock acquired by such shareholder or member of such group for an "equitable price" shall be treated as being beneficially owned by such

shareholder or group. An "equitable price" will be deemed to have been paid only when shares of Class B Common Stock have been acquired at a price at least equal to the greater of (i) the highest price per share paid by the Significant Shareholder in cash or in non-cash consideration, for any shares of Class A Common Stock or Class B Common Stock (whichever is higher) in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest closing price of a share of Class A Common Stock or Class B Common Stock (whichever is higher) on The New York Stock Exchange (or such other quotation system or securities exchange constituting the principal trading market for either class of Common Stock) during the 30 calendar days preceding the date such person or group became a Significant Shareholder, with the value of any non-cash consideration in either case being determined by the Board of Directors acting in good faith.

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

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

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

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

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

APPENDIX B

RESOLVED, that the Bylaws of the Company be, and the same hereby are, amended by deleting the current Section 9 of Article II thereof in its entirety, and substituting in lieu thereof the following:

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

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APPENDIX C
1992 LONG TERM INCENTIVE PLAN
[SENTENCES OR PARAGRAPHS CONTAINING PROPOSED AMENDMENTS
ARE ITALICIZED AND IN BOLD-FACE TYPE.]

SECTION 1. ESTABLISHMENT AND PURPOSE.

Gray Communications Systems, Inc. hereby establishes a long term incentive plan to be named the Gray Communications Systems, Inc. 1992 Long Term Incentive Plan, for certain employees of the Company and its subsidiaries. The purpose of this Plan is to encourage certain employees of the Company, and of such subsidiaries of the Company as the Committee administering the Plan designates, to acquire Common Stock of the Company or to receive monetary payments based on the value of such stock or based upon achieving certain goals on a basis mutually advantageous to such employees and the Company and thus provide an incentive for continuation of the efforts of employees for the success of the Company and for continuity of employment.

SECTION 2. DEFINITIONS.

Whenever used herein, the following terms shall have the respective meanings set forth below:

- (a) ACT means the Securities Exchange Act of 1934, as amended from time to time.
- (b) AWARD means any Stock Option, Stock Appreciation Right, Restricted Stock, or Performance Award granted under the Plan.
- (c) BASE PRICE means, in the case of an Option or a Stock Appreciation Right, a price fixed by the Committee at which the Option or the Stock Appreciation Right may be exercised, which in the case of an Incentive Stock Option or a Stock Appreciation Right shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant of such option or right.
- (d) BOARD means the Board of Directors of the Company.
- (e) CHANGE OF CONTROL IS DEFINED IN SECTION 14.
- (f) CODE means the Internal Revenue Code of 1986, as amended and in effect from time to time.
- (g) COMMITTEE means those members of the Compensation Committee of the Board who are not eligible for participation in the Plan or any other plan of the Company, except plans meeting the requirements of Rule 16b-3(c)(2)(i)(A)-(D) promulgated under the Act, and who during the one year period prior to becoming a member of the Compensation Committee were not eligible for selection as a Participant in the Plan or any other plan of the Company, except plans meeting the requirements of Rule 16b-3(c)(2)(i)(A)-(D).
- (h) COMPANY means Gray Communications Systems, Inc., a Georgia Corporation.
- (i) DISABILITY means permanent and total disability as defined in Section 22(e)(3) of the Code, as determined by the Committee in good faith, upon receipt of and in reliance on sufficient competent medical advice.
- (j) EMPLOYEE means a salaried employee (including officers and directors who are also employees) of any member of the Group.
- (k) FAIR MARKET VALUE means, for any particular date, (i) for any period during which the Stock shall not be listed for trading on a national securities exchange, but when prices for the Stock shall be reported by the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the last transaction price per share as quoted by National Market System of NASDAQ, (ii) for any period during which the Stock shall not be listed for trading on a national securities exchange or its price reported by the National Market System of

NASDAQ, but when prices for the Stock shall be reported by NASDAQ, the closing bid price as reported by the NASDAQ, (iii) for any period during which the Stock shall be listed for trading on a national securities exchange, the closing price per share of stock on such exchange as of the close of such trading day or (iv) the market price per share of Stock as determined by a nationally recognized investment banking firm selected by the Board of Directors in the event neither (i), (ii) or (iii) above shall be applicable. If Market Price is to be determined as of a day when the securities markets are not open, the Market Price on that day shall be the Market Price on the preceding day when the markets were open.

- (l) GROUP means the Company and every Subsidiary of the Company.
- (m) OPTION means the right to purchase Stock at the Base Price for a specified period of time. For purposes of the Plan, an Option may be an INCENTIVE STOCK OPTION within the meaning of Section 422 of the code, a NONQUALIFIED STOCK OPTION, or any other type of option encompassed by the Code.
- (n) PARTICIPANT means any Employee designated by the Committee to participate in the Plan.
- (o) PERFORMANCE AWARD means a right to receive a payment equal to the value of a unit or other measure as determined by the Committee based on performance during a Performance Period.
- (p) PERFORMANCE PERIOD means a period of not more than ten years established by the Committee during which certain performance goals set by the Committee are to be met.
- (q) PERIOD OF RESTRICTION means the period during which a grant of shares of Restricted Stock is restricted pursuant to Section 11 of the Plan.
- (r) REPORTING PERSON means a person subject to Section 16 of the act.
- (s) RESTRICTED STOCK means Stock granted pursuant to Section 11 of the Plan, but a share of such Stock shall cease to be Restricted Stock when the conditions to and limitations on transferability under Section 11 have been satisfied or have expired, respectively.
- (t) RETIREMENT (INCLUDING NORMAL, EARLY, and DISABILITY Retirement) means termination of employment with eligibility for normal, early or disability retirement benefits under the terms of the Gray Communications Systems, Inc. Pension Plan, as amended and in effect at the time of such termination of employment.
- (u) STOCK MEANS THE AUTHORIZED AND UNISSUED SHARES OF THE CLASS B COMMON VOTING STOCK OF THE COMPANY OR REACQUIRED SHARES OF THE COMPANY'S CLASS B COMMON VOTING STOCK IN ITS TREASURY.
- (v) STOCK APPRECIATION RIGHT or SAR means the right to receive a payment from the Company equal to the excess of the Fair Market Value of a share of Stock at the date of exercise over the Base Price. In the case of a Stock Appreciation Right which is granted in conjunction with an Option, the Base Price shall be the Option exercise price.
- (w) SUBSIDIARY means a subsidiary corporation as defined in Section 425 of the Code.
- (x) WINDOW PERIOD means the third to the twelfth business day following the release for publication of the Company's quarterly or annual earnings report.

SECTION 3. ADMINISTRATION.

The Plan will be administered by the Committee. The determinations of the Committee shall be made in accordance with their judgment as to the best interests of the Company and its stockholders and in accordance with the purpose of the Plan. A majority of members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Plan may be made without notice or meeting of the Committee,

by a writing signed by a majority of the Committee members. Determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final and binding and conclusive for all purposes and upon all persons whomsoever.

SECTION 4. SHARES RESERVED UNDER THE PLAN.

THERE IS HEREBY RESERVED FOR ISSUANCE UNDER THE PLAN AN AGGREGATE OF 400,000 SHARES OF CLASS B COMMON STOCK, WHICH MAY BE AUTHORIZED BUT UNISSUED OR TREASURY SHARES. No more than 100,000 of these shares may be issued as Restricted Stock. Stock underlying outstanding Options or Performance Awards will be counted against the Plan maximum while such options or awards are outstanding. Shares underlying expired, canceled or forfeited options or awards (except Restricted Stock) may be added back to the Plan maximum. When the exercise price of stock options is paid by delivery of shares of Stock, the number of shares available for issuance under the Plan shall continue to be reduced by the gross (rather than the net) number of shares issued pursuant to such exercise, regardless of the number of shares surrendered in payment. Restricted Stock issued pursuant to the Plan will be counted against the Plan maximum while outstanding even while subject to restrictions.

SECTION 5. PARTICIPANTS.

Participants will consist of such officers and key employees of the Company or any designated subsidiary as the Committee in its sole discretion determines have a major impact on the success and future growth and profitability of the Company. Designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year or to receive the same type or amount of Award as granted to the Participant in any other year or as granted to any other Participant in any year. The Committee shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Awards.

SECTION 6. TYPES OF AWARDS.

The following Awards may be granted under the Plan: (a) Incentive Stock Options; (b) Nonqualified Stock Options; (c) Stock Appreciation Rights; (d) Restricted Stock; and (e) Performance Awards; all as described below. Except as specifically limited herein, the Committee shall have complete discretion in determining the type and number of Awards to be granted to any Participant, and the terms and conditions which attach to each Award, which terms and conditions need not be uniform as between different participants. All Awards shall be in writing.

SECTION 7. DATE OF GRANTING AWARDS.

All Awards granted under the Plan shall be granted as of an Award Date. Promptly after each Award Date, the Company shall notify the Participant of the grant of the Award, and shall hand deliver or mail to the Participant an Award Agreement, duly executed by and on behalf of the Company, with the request that the Participant execute and return the Agreement within thirty days after the date of mailing or delivery by the Company of the Agreement to the Participant. If the Participant shall fail to execute and return the written Award Agreement within said thirty day period, his or her Award shall be automatically terminated, except that if the Participant dies within said thirty day period such Option Agreement shall be effective notwithstanding the fact that it has not been signed prior to death.

SECTION 8. INCENTIVE STOCK OPTIONS.

Incentive Stock Options shall consist of options to purchase shares of Stock at purchase prices not less than 100% of the Fair Market Value of the shares on the date the option is granted. Said purchase price may be paid by check or, in the discretion of the Committee, by the delivery of shares of Stock then owned by the Participant. Incentive Stock Options will be exercisable not earlier than six months and not later than ten years after the date they are granted and, except as provided below, will terminate not later than three months after termination of employment for any reason other than death or disability. In the event

termination of employment occurs as a result of death or Disability, such an option will be exercisable for 12 months after such termination. If the optionee dies within 12 months after termination of employment by reason of Disability, then the period of exercise following death shall be the remainder of the 12-month period, or three months, whichever is longer. If the optionee dies within three months after termination of employment for any other reason, then the period of exercise following death shall be three months. However, in no event shall any Incentive Stock Option be exercised more than ten years after its grant. Leaves of absence granted by the Company for military service, illness, and transfers of employment between the Company and any subsidiary thereof shall not constitute termination of employment. The aggregate Fair Market Value (determined as of the time an option is granted) of the stock with respect to which an Incentive Stock Option is exercisable for the first time during any calendar year (under all option plans of the Company and its subsidiary corporations) shall not exceed \$100,000 per participant.

SECTION 9. NONQUALIFIED STOCK OPTIONS.

Nonqualified Stock Options shall consist of nonqualified options to purchase shares of Stock at purchase prices determined by the Committee. The purchase price may be paid by check or, in the discretion of the Committee, by the delivery of shares of Stock then owned by the Participant. Nonqualified Stock Options will be exercisable not earlier than six months and not later than ten years after the date they are granted, and will terminate not later than three months after termination of employment for any reason other than death, Retirement or Disability. In the event termination of employment occurs as a result of death, Retirement or Disability, such an option will be exercisable for 12 months after such termination. If the optionee dies within 12 months after termination of employment by Retirement or Disability, then the period of exercise following death shall be three months. However, in no event shall any option be exercised more than ten years after its grant. Leaves of absence granted by the Company for military service, illness, and transfers of employment between the Company and any subsidiary thereof shall not constitute termination of employment. The Committee shall have the right to determine at the time the option is granted whether shares issued upon exercise of a Nonqualified Stock Option shall be subject to restrictions, and if so, the nature of the restrictions.

SECTION 10. STOCK APPRECIATION RIGHTS.

Stock Appreciation Rights may be granted which, at the discretion of the Committee, may be exercised (1) in lieu of exercise of an Option, (2) in conjunction with the exercise of an Option, (3) upon lapse of an Option, (4) independent of an Option, or (5) each of the above in connection with a previously awarded Option under the Plan. SARs issued to Reporting Persons shall be held for at least six months prior to exercise. If the Option referred to in (1), (2) or (3) above qualified as an Incentive Stock Option pursuant to Section 422 of the Code, the related SAR shall comply with the applicable provisions of the Code and the regulations issued thereunder. At the time of grant, the Committee may establish, in its sole discretion, a maximum amount per share which will be payable upon exercise of a SAR, and may impose such conditions on exercise of an SAR (including, without limitation, the right of the Committee to limit the time of exercise to specified periods) as may be required to satisfy the requirements of Rule 16b-3 (or any successor rule), under the Act. At the discretion of the Committee, payment for SARs may be made in cash or Stock, or in a combination thereof, provided, however, that payment may be made in cash for SARs exercised by Reporting Persons only upon the condition that such exercise is made during the Window Period. The following will apply upon exercise of an SAR:

(a) EXERCISE OF SARs IN LIEU OF EXERCISE OF OPTIONS. SARs exercisable in lieu of Options may be exercised for all or part of the shares of Stock subject to the related Option upon the exercise of the right to exercise an equivalent number of Options. A SAR may be exercised only with respect to the shares of stock for which its related Option is then exercisable. Upon exercise of a SAR in lieu of exercise of an Option, shares of Stock equal to the number of SARs exercised shall no longer be available for Awards under the Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised shall be restored to the number of shares available for issuance under the Plan.

(b) EXERCISE OF SARs IN CONJUNCTION WITH EXERCISE OF OPTIONS. SARs exercisable in conjunction with the exercise of Options shall be deemed to be exercised upon the exercise of the related Options, and shares of Stock equal to the sum of the number of shares acquired by exercise of the Option plus the number of SARs exercised shall no longer be available for Awards under the Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised shall be restored to the number of shares available for issuance under the Plan.

(c) EXERCISE OF SARs UPON LAPSE OF OPTIONS. SARs exercisable upon lapse of Options shall be deemed to have been exercised upon the lapse of the related Options as to the number of shares of Stock subject to the Options. Shares of Stock equal to the number of SARs deemed to have been exercised shall not be available again for Awards under the Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised shall be restored to the number of shares available for issuance under the Plan.

(d) EXERCISE OF SARs INDEPENDENT OF OPTIONS. SARs exercisable independent of Options may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon the SARs, and shares of Stock equal to the number of SARs exercised shall no longer be available for Awards under the Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised shall be restored to the number of shares available for issuance under the Plan.

SECTION 11. RESTRICTED STOCK.

Restricted Stock shall consist of Stock issued or transferred under the Plan (other than upon exercise of Stock Options or as Performance Awards) at any purchase price less than the Fair Market Value thereof on the date of issuance or transfer, or as a bonus. In the case of any Restricted Stock:

(a) The purchase price, if any, will be determined by the Committee.

(b) Restricted Stock may be subject to (i) restrictions on the sale or other disposition thereof, provided, however, that Restricted Stock granted to a Reporting Person shall, in addition to any other restrictions thereon, not be sold or disposed of for not less than six (6) months following the date of grant; (ii) rights of the Company to reacquire such Restricted Stock at the purchase price, if any, originally paid therefor upon termination of the employee's employment within specified periods, (iii) representation by the employee that he or she intends to acquire Restricted Stock for investment and not for resale, and (iv) such other restrictions, conditions and terms as the Committee deems appropriate.

(c) The Participant shall be entitled to all dividends paid with respect to Restricted Stock during the Period of Restriction and shall not be required to return any such dividends to the company in the event of the forfeiture of the Restricted Stock.

(d) The Participant shall be entitled to vote the Restricted Stock during the Period of Restriction.

(e) The Committee shall determine whether Restricted Stock is to be delivered to the Participant with an appropriate legend imprinted on the certificate or if the shares are to be deposited in escrow pending removal of the restrictions.

SECTION 12. PERFORMANCE AWARDS.

Performance Awards shall consist of Stock, stock units or a combination thereof, to be issued without any payment therefor, in the event that certain performance goals established by the Committee are achieved during the Performance Period. The goals established by the Committee may include return on average total capital employed, earnings per share, return on stockholders' equity and such other goals as may be established by the Committee. In the event the minimum Corporate goal is not achieved at the conclusion of the Performance Period, no payment shall be made to the Participant. Actual payment of the award earned shall be in cash or in Stock or in a combination of both, in a single sum or in periodic

installments, all as the Committee in its sole discretion determines. If Stock is used, the Participant shall not have the right to vote and receive dividends until the goals are achieved and the actual shares are issued. In the event a Reporting Person received a Performance Award which includes Stock, such stock shall not be sold or disposed of for six (6) months following the date of issuance pursuant to such award. In the event an Award is paid in cash instead of Stock, the number of shares reserved for issuance hereunder and the number of shares which may be granted in the form of Restricted Stock or Performance Awards shall be reduced as if shares had been issued.

SECTION 13. ADJUSTMENT PROVISIONS.

(a) If the Company shall at any time change the number of issued shares of Stock without new consideration to the Company (such as by stock dividends or stock splits), the total number of shares reserved for issuance under this Plan, the number of shares which may be granted in the form of Restricted Stock or Performance Awards, the maximum number of shares available to a particular Participant, and the number of shares covered by each outstanding Award, shall be adjusted so that the aggregate consideration payable to the Company, if any, and the value of each such Award shall not be changed. Awards may also contain provisions for their continuation or for other equitable adjustments after changes in the Stock resulting from reorganization, sale, merger, consolidation, issuance of stock rights or warrants, or similar occurrence.

(b) Notwithstanding any other provision of this Plan, and without affecting the number of shares reserved or available hereunder, the Board of Directors may authorize the equitable adjustment of benefits in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

SECTION 14. CHANGE OF CONTROL.

Notwithstanding any other provision of this Plan, if the terms of an agreement under which the Committee has granted an Award under this Plan shall so provide, upon a Change of Control outstanding Awards shall become immediately and fully exercisable or payable according to the following terms:

(a) Any outstanding and unexercised Option shall become immediately and fully exercisable, and shall remain exercisable until it would otherwise expire by reason of lapse of time.

(b) During the six month and seven day period from and after a Change of Control (the "Exercise Period"), unless the Committee shall determine otherwise at the time of grant, a Participant shall have the right, in lieu of the payment of the Base Price of the shares of Stock being purchased under an Option and by giving notice to the Committee, to elect (within the Exercise Period and, in the case of Reporting Persons, only within a Window Period within such Exercise Period) in lieu of exercise thereof, provided that if such Option is held by a Reporting Person more than six (6) months have elapsed from the grant thereof to surrender all or part of the Option to the Company and to receive in cash within 30 days of such notice, an amount equal to the amount by which the Change in Control Price per share of Stock on the date of such elections shall exceed the Base Price per share of Stock under the Option multiplied by the number of shares of Stock granted under the Option as to which the right granted under this subsection 14(b) shall have been exercised. Change in Control Price shall mean the higher of (i) (A) for any period during which the Stock shall not be listed for trading on a national securities exchange, but when prices for the Stock shall be reported by the National Market System of the Nasdaq Market, the highest price per share as quoted by National Market System of Nasdaq Market, (B) for any period during which the Stock shall not be listed for trading on a national securities exchange or its price reported by the National Market System of NASDAQ, but when prices for the Stock shall be reported by NASDAQ, the highest average of the high bid and low asked prices as reported by the NASDAQ, (C) for any period during which the Stock shall be listed for trading on a national securities exchange, the highest closing price per share of Stock on such exchange as of the close of such trading day or (D) the highest market price per share of Stock as determined by a nationally recognized investment banking firm selected by the Board of Directors in the event neither (A), (B) or (C) above shall be

applicable in each case during the 60 day period prior to and ending on the date of the Change of Control and (ii) if the Change of Control is the result of a transaction or series of transactions described in subsections 14(f)(i) or (iii) hereof, the highest price per share of the Stock paid in such transaction or series of transaction (which in the case of paragraph (i) shall be the highest price per share of the Stock as reflected in a Schedule 13D by the person having made the acquisition); provided, however, that with respect to any Incentive Stock Option, the Change of Control Price shall not exceed the market price of a share of Stock (to the extent required pursuant to Section 422 of the Internal Revenue Code of 1986, as amended) on the date of surrender thereof.

(c) Any outstanding and unexercised Stock Appreciation Rights (other than such rights which arise pursuant to subsection 14(b) hereof) shall become exercisable as follows:

(i) Any SAR described in subsections 10(a) or (b) shall continue to be treated as provided in those subsections, except that SARs exercised by Reporting Persons for cash shall be exercised only during a Window Period, and shall have been held for six months prior to exercise.

(ii) Any SAR described in subsection 10(c) shall be deemed to have been exercised if and when the Participant advises the Committee in writing that he or she elects to have options with respect to which the SAR was granted treated as having lapsed, except that SARs exercised by Reporting Persons for cash shall be exercised only during a Window Period, and shall have been held for six months prior to exercise.

(iii) Any SAR described in Subsection 10(d) shall be exercisable immediately, without regard to limitations imposed; upon such exercise which are related to the passage of time, except that SARs exercised by Reporting Persons for cash shall be exercised only during a Window Period, and shall have been held for six months prior to exercise.

(d) Any Restricted Stock granted pursuant to Section 11 shall become immediately and fully transferable, and the Committee shall be deemed to have exercised its discretion to waive any automatic forfeitures provided with respect to such Restricted Stock. Any shares held in escrow shall be delivered to the Participant, and the share certificates shall not contain the legend specified by subsection 11(e). Reporting Persons shall not dispose of any Restricted Stock until six (6) months following the date of grant of such Restricted Stock.

(e) Any Performance Award granted pursuant to Section 12 which has not expired or been forfeited shall be deemed to have been earned on the assumption that all performance goals have been achieved to the fullest extent scheduled in the Award. All payment shall be made promptly in a lump sum, notwithstanding any other provision for installment or deferred payment prescribed in the Award.

(f) For purposes of this Plan, Change of Control shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Act; provided that, for purposes of this Agreement, a Change in Control shall be deemed to have occurred if (i) any Person (other than the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company which represent 20% or more of the combined voting power of the Company's then outstanding securities; (ii) during any period of two (2) consecutive years individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election, by the Company's stockholders, of each new director is approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of the period but excluding any individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; (iii) there is consummated any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock are converted into cash, securities, or other property, other than a merger of the Company in which the holders of the Company's Common Stock

immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; (iv) there is consummated any consolidation or merger of the Company in which the Company is the continuing or surviving corporation in which the holders of the Company's Common Stock immediately prior to the merger do not own seventy percent (70%) or more of the stock of the surviving corporation immediately after the merger; (v) there is consummated any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (vi) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.

SECTION 15. NONTRANSFERABILITY.

Each Award granted under the Plan to a Participant shall not be transferable other wise than by will or the laws of descent and distribution or pursuant to a Qualified Domestic Relations Order (as defined in Section 206(d)(3) of the Employee Retirement Income Security Act of 1974, as amended, and the rules promulgated thereunder), and shall be exercisable, during the Participant's lifetime, only by the Participant. In the event of the death of a Participant, exercise of payment shall be made only:

(a) By or to the executor or administrator of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the Award shall pass by will or the laws of descent and distribution; and

(b) To the extent that the deceased Participant was entitled thereto at the date of his death, provided, however, that any otherwise applicable six-month holding period shall not be required for exercise by or payment to an executor or administrator of the estate of a deceased Reporting Person.

SECTION 16. TAXES.

The Company shall be entitled to withhold the amount of any tax attributable to any amounts payable or shares deliverable under the Plan after giving the person entitled to receive such payment or delivery notice as far in advance as practicable, and the Company may defer making payment or delivery as to any Award if any such tax is payable until indemnified to its satisfaction. The person entitled to any such delivery may, by notice to the Company at the time the requirement for such delivery is first established, elect to have such withholding satisfied by a reduction of the number of shares otherwise so deliverable (a "Stock Withholding Election"), such reduction to be calculated based on a closing market price on the date of such notice. Reporting Persons may make a Stock Withholding Election either (i) during a Window Period, as to an Option or SAR exercise during such Window Period, or (ii) six months in advance of an Option or SAR exercise, which exercise need not occur during a Window Period, and which election may not be suspended or revoked except by another such election which shall not become effective until six months after it is made.

SECTION 17. NO RIGHT TO EMPLOYMENT.

A Participant's right, if any, to continue to serve the Company and its subsidiaries as an officer, employee, or otherwise, shall not be enlarged or otherwise affected by his or her designation as a Participant under the Plan.

SECTION 18. DURATION, AMENDMENT AND TERMINATION.

No Award shall be granted more than ten years after the effective date of this Plan; provided, however, that the terms and conditions applicable to any Award granted within such period may thereafter be amended or modified by mutual agreement between the Company and the Participant or such other person as may then have an interest therein. Also, by mutual agreement between the Company and a Participant hereunder, Stock Options or other Awards may be granted to such Participant in substitution and exchange for, and in cancellation of, any Awards previously granted such Participant under this Plan. To the extent that any Stock Options or other Awards which may be granted within the terms of the Plan would qualify under present or future laws for tax treatment that is beneficial to a recipient, then any such beneficial treatment shall be considered within the intent, purpose and operational purview of the Plan and the discretion of the

Committee and to the extent that any such Stock Options or other Awards would so qualify within the terms of the Plan, the Committee shall have full and complete authority to grant Stock Options or other Awards that so qualify (including the authority to grant, simultaneously or otherwise, Stock Options or other Awards which do not so qualify) and to prescribe the terms and conditions (which need not be identical as among recipients) in respect to the grant or exercise of any such Stock Option or other Awards under the Plan. The Board of Directors may amend the Plan from time to time or terminate the Plan at any time. However, no action authorized by this paragraph shall reduce the amount of any existing Award or change the terms and conditions thereof without the Participant's consent. No amendment of the Plan, shall, without approval of the stockholders of the Company (a) increase the total number of shares which may be issued under the Plan or increase the amount of type of Awards that may be granted under the Plan; (b) change the minimum purchase price, if any, of shares of Common Stock which may be made subject to Awards under the Plan; or (c) modify the requirements as to eligibility for Awards under the Plan.

SECTION 19. STOCKHOLDER APPROVAL.

The Plan shall be effective on July 1, 1992, and shall be submitted for approval by the stockholders of the Company at the Annual Meeting of Stockholders in 1992. If the stockholders do not approve the Plan, it, and any action taken hereunder, shall be void and of no effect.

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PRO FORMA FINANCIAL DATA

The following unaudited condensed combined pro forma financial statements of the Company give effect to the Augusta Acquisition, the Stock Offering, the Note Offering, the KTVE Sale, the Phipps Acquisition and the Financing as if such transactions had occurred as of January 1, 1995 with respect to the statement of income for the year ended December 31, 1995 and as of December 31, 1995 with respect to the balance sheet. The Augusta Acquisition and the Phipps Acquisition are reflected using the purchase method of accounting for business combinations. The pro forma financial information is provided for comparative purposes only and does not purport to be indicative of the results that actually would have been obtained if the events set forth above had been effected on the dates indicated or of those results that may be obtained in the future. The pro forma financial statements are based on preliminary estimates of values and transaction costs. The actual recording of the transactions will be based on final appraisals, values and transaction costs. Accordingly, the actual recording of the transactions can be expected to differ from these pro forma financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1995
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL ----- COMPANY	AUGUSTA BUSINESS -----	PRO FORMA ADJUSTMENTS FOR AUGUSTA ACQUISITION -----	PRO FORMA COMPANY -----	STOCK OFFERING -----	PRO FORMA COMPANY -----
STATEMENT OF OPERATIONS DATA:						
Operating revenues:						
Broadcasting (less agency commissions)	\$ 36,750	\$ 8,660	\$ 228(1)	\$ 45,638	\$ --	\$ 45,638
Publishing	21,866	--	--	21,866	--	21,866
Paging	--	--	--	--	--	--
Total revenues	58,616	8,660	228	67,504	--	67,504
Expenses:						
Broadcasting	23,202	5,774	228(1)	29,204	--	29,204
Publishing	20,016	--	--	20,016	--	20,016
Paging	--	--	--	--	--	--
Corporate and administrative	2,258	--	--	2,258	--	2,258
Depreciation	2,633	272	(52)(2)	2,853	--	2,853
Amortization of intangible assets	1,326	152	769(3)	2,247	--	2,247
Non-cash compensation paid in common stock	2,321	--	--	2,321	--	2,321
Management fee	--	--	--	--	--	--
Total expenses	51,756	6,198	945	58,899	--	58,899
Operating income	6,860	2,462	(717)	8,605	--	8,605
Miscellaneous income (expense), net	143	(220)	128(4)	51	--	51
Income before interest expense, minority interests and income taxes	7,003	2,242	(589)	8,656	--	8,656
Interest expense	5,438	--	3,355(5)	8,793	(5,468)(7)	3,325
Income (loss) before minority interests and income taxes	1,565	2,242	(3,944)	(137)	5,468	5,331
Minority interests	--	--	--	--	--	--
Income (loss) before income taxes	1,565	2,242	(3,944)	(137)	5,468	5,331
Income tax expense (benefit)	634	--	(675)(6)	(41)	2,180(6)	2,139
Net income (loss)	931	2,242	(3,269)	(96)	3,288	3,192
Preferred stock dividends	--	--	--	--	1,400(8)	1,400
Net income (loss) available to common stockholders	\$ 931	\$ 2,242	\$ (3,269)	\$ (96)	\$ 1,888	\$ 1,792
Average shares outstanding (000s) (18)	4,481			4,354		7,981
Earnings (loss) per share (19)	\$ 0.21			\$ (0.02)		\$ 0.22

	KTVE SALE (9)	PRO FORMA COMPANY -----	PHIPPS BUSINESS -----	PRO FORMA ADJUSTMENTS -----	PRO FORMA COMBINED (20) -----
STATEMENT OF OPERATIONS DATA:					
Operating revenues:					
Broadcasting (less agency commissions)	\$ (4,188)	\$ 41,450	\$ 22,424	\$ --	\$ 63,874
Publishing	--	21,866	--	--	21,866
Paging	--	--	4,897	--	4,897
Total revenues	(4,188)	63,316	27,321	--	90,637
Expenses:					
Broadcasting	(3,313)	25,891	10,487	220(10) 579(11)	37,177
Publishing	--	20,016	--	--	20,016
Paging	--	--	3,052	--	3,052
Corporate and administrative	--	2,258	--	--	2,258
Depreciation	(438)	2,415	2,385	(625)(12)	4,175
Amortization of intangible assets	--	2,247	735	3,515(13)	6,497
Non-cash compensation paid in common stock	--	2,321	--	--	2,321
Management fee	--	--	3,280	(3,280)(14)	--
Total expenses	(3,751)	55,148	19,939	409	75,496
Operating income	(437)	8,168	7,382	(409)	15,141
Miscellaneous income (expense), net	(27)	24	12	--	36
Income before interest expense, minority interests and income taxes	(464)	8,192	7,394	(409)	15,177
Interest expense	--	3,325	499	(499)(15) 17,806(16)	21,131
Income (loss) before minority interests and					

income taxes	(464)	4,867	6,895	(17,716)	(5,954)
Minority interests	--	--	547	(547)(17)	--
	-----	-----	-----	-----	-----
Income (loss) before income taxes	(464)	4,867	6,348	(17,169)	(5,954)
Income tax expense (benefit)	(185)	1,954	--	(3,972)(6)	(2,018)
	-----	-----	-----	-----	-----
Net income (loss)	(279)	2,913	6,348	(13,197)	(3,936)
Preferred stock dividends	--	1,400	--	--	1,400
	-----	-----	-----	-----	-----
Net income (loss) available to common stockholders	\$ (279)	\$ 1,513	\$ 6,348	\$ (13,197)	\$ (5,336)
	-----	-----	-----	-----	-----
Average shares outstanding (000s) (18)		7,981			7,854
		-----			-----
Earnings (loss) per share (19)		\$ 0.19			\$ (0.68)
		-----			-----

The pro forma adjustments to reflect the Augusta Acquisition, the Stock Offering, the Note Offering, the KTVE Sale, the Phipps Acquisition and the Financing are as follows:

STATEMENT OF OPERATIONS -- YEAR ENDED DECEMBER 31, 1995

1. Reflects the classification of national sales representative commissions as an expense consistent with the presentation by the Company.
2. Reflects decreased annual depreciation resulting from the change in asset lives in connection with the preliminary allocation of the Augusta Acquisition purchase price to the newly acquired property and equipment, at fair market value.
3. Reflects annual amortization of \$107,000 on the Augusta Business's financing costs over a seven-year period. Also reflects the annual amortization of \$813,000 on the intangible assets associated with the Augusta Acquisition over a 40-year period.
4. Reflects the elimination of the corporate allocation to the Augusta Business by its previous owner which will not be incurred by the Company.
5. Reflects increased annual interest expense of \$155,000 due to an interest rate adjustment on the Senior Note; increased annual interest expense of \$2.4 million on the Senior Credit Facility at LIBOR plus 3.5%, based on an increase in the debt level subsequent to the Augusta Acquisition; and annual interest expense of \$800,000 on the 8% Note. Three month LIBOR on January 4, 1996 was approximately 5.625%.
6. Reflects the adjustment of the income tax provision to the estimated effective tax rate.
7. Reflects decreased annual interest expense of \$4.7 million on the Senior Credit Facility resulting from payment from the proceeds of the Stock Offering of \$52.1 million in principal, bearing interest at an estimated interest rate of 8.96% per annum. Also reflects a reduction of annual interest expense of \$800,000 on the 8% Note which will be converted to Series A Preferred Stock.
8. Reflects annual dividends on the Company's Series A and Series B Preferred Stock.
9. Reflects the elimination of the results of operations of KTVE. The pro forma adjustments exclude an estimated gain of \$5.4 million (net of estimated income taxes of \$2.8 million) from the KTVE Sale.
10. Reflects additional accounting and administrative expenses associated with the Phipps Business.
11. Reflects increased pension expense for the Phipps Business subsequent to the Phipps Acquisition. Historical pension expense for the Phipps Business was a credit of \$449,000 while pension expense for these operations subsequent to the Phipps Acquisition is expected to be an expense of approximately \$130,000.
12. Reflects decreased annual depreciation resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of the Phipps Acquisition.
13. Reflects annual amortization of intangible assets associated with the Phipps Acquisition over a 40-year period.
14. Reflects elimination of the corporate allocation to the Phipps Business. Such amounts will not be incurred by the Company in connection with its operations of the Phipps Business.
15. Reflects the elimination of interest expense associated with borrowings of the Phipps Business which will not be assumed by the Company.
16. Reflects increased annual interest expense of \$16.3 million on the Notes, which includes annual amortization expense of \$525,000 resulting from the transaction costs relating to the issuance of the Notes, increased annual interest expense of \$1.2 million relating to additional borrowings under the Senior Credit Facility at an estimated interest rate of 8.96% plus amortization of additional deferred financing costs of \$214,000, and increased annual interest expense of \$125,000 due to an interest rate adjustment from 10.7% to 11.2% on the Senior Note.
17. Reflects the elimination of minority interests associated with the Phipps Business, because such minority interests will be acquired as part of the Phipps Acquisition.
18. Average outstanding shares used to calculate pro forma earnings (loss) per share are based on weighted average common shares outstanding during the period, adjusted for the Stock Offering.
19. If the issuance of Class B Common Stock and retirement of \$52.1 million in debt under the Senior Credit Facility had taken place at the beginning of 1995, pro forma net income (1995 historical earnings adjusted for interest expense in connection with the payment under the Senior Credit Facility, net of income tax) would have been \$3.0 million, or \$0.38 per share.
20. In connection with the Phipps Acquisition, the Company is seeking FCC approval of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest its current

ownership interest in WALB and WJHG. In order to satisfy applicable FCC requirements, 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 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC.

Condensed income statement data of WALB and WJHG are as follows:

	YEAR ENDED DECEMBER 31, 1995	
	----- WALB -----	----- WJHG -----
Broadcasting revenues.....	\$ 9,445	\$ 3,843
Expenses.....	4,650	3,573
	-----	-----
Operating income.....	4,795	270
Other income.....	17	60
	-----	-----
Income before income taxes.....	4,812	330
	-----	-----
Net income.....	\$ 2,984	\$ 205
	-----	-----
Media Cash Flow.....	\$ 5,103	\$ 549
	-----	-----

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF DECEMBER 31, 1995
(DOLLARS IN THOUSANDS)

	HISTORICAL		PRO FORMA	PRO FORMA	STOCK	PRO FORMA	KTVE	PRO FORMA
	COMPANY	AUGUSTA	ADJUSTMENTS	COMPANY	OFFERING	COMPANY	SALE (7)	COMPANY
		BUSINESS	FOR AUGUSTA					
			ACQUISITION					
ASSETS:								
Cash	\$ 560	\$ 334	\$ (334)(1)	\$ 560	\$ 18,950(5)	\$ 19,510	\$ 9,500	\$ 29,010
Trade accounts receivable	9,560	1,748	--	11,308	--	11,308	--	11,308
Recoverable income taxes	1,347	--	--	1,347	--	1,347	(1,347)	--
Inventories	553	--	--	553	--	553	--	553
Current portion of program broadcast rights	1,153	924	(260)(2)	1,817	--	1,817	(204)	1,613
Prepaid expenses and other current assets	264	55	--	319	--	319	(33)	286
Total current assets	13,437	3,061	(594)	15,904	18,950	34,854	7,916	42,770
Property and equipment -- net	17,017	1,778	402(1)	19,197	--	19,197	(1,748)	17,449
Other assets								
Deferred acquisition costs	3,330	--	(1,500)(1)	454	--	454	--	454
			(1,376)(3)					
Deferred loan costs	1,232	--	751(3)	1,983	--	1,983	--	1,983
Goodwill and other intangibles	42,004	4,129	27,652(1)	74,410	--	74,410	(2,322)	72,088
			625(3)					
Other	1,220	2,571	(2,518)(2)	1,273	--	1,273	(17)	1,256
Total other assets	47,786	6,700	23,634	78,120	--	78,120	(2,339)	75,781
Total assets	\$78,240	\$11,539	\$ 23,442	\$113,221	\$ 18,950	\$132,171	\$ 3,829	\$136,000
LIABILITIES AND STOCKHOLDERS' EQUITY:								
Trade accounts payable	\$ 3,753	\$ 233	\$ (233)(1)	\$ 3,753	\$ --	\$ 3,753	\$ --	\$ 3,753
Employee compensation and benefits	4,213	--	--	4,213	--	4,213	--	4,213
Accrued expenses	561	--	452(1)	1,013	--	1,013	--	1,013
Accrued interest	1,064	--	--	1,064	--	1,064	--	1,064
Income taxes payable	--	--	--	--	--	--	1,461	1,461
Current portion of broadcast program obligations	1,205	898	(260)(2)	1,843	--	1,843	(205)	1,638
Deferred paging service income	--	--	--	--	--	--	--	--
Current portion of long-term debt	2,862	--	--	2,862	--	2,862	--	2,862
Total current liabilities	13,658	1,131	(41)	14,748	--	14,748	1,256	16,004
Long-term debt	51,463	--	33,728(4)	85,191	(10,000)(5)	23,091	--	23,091
					(52,100)(6)			
Deferred credits	4,133	2,681	(2,518)(2)	4,296	--	4,296	(3)	4,293
Minority interests	--	--	--	--	--	--	--	--
Stockholders' equity								
Series A Preferred Stock	--	--	--	--	10,000(5)	10,000	--	10,000
Series B Preferred Stock	--	--	--	--	10,000(5)	10,000	--	10,000
Class A Common Stock, no par value	6,796	--	--	6,796	--	6,796	--	6,796
Class B Common Stock, no par value	--	--	--	--	61,050(5)	61,050	--	61,050
Retained earnings	8,828	--	--	8,828	--	8,828	2,576	11,404
Net equity of acquired operations	--	7,727	(7,727)(1)	--	--	--	--	--
	15,624	7,727	(7,727)	15,624	81,050	96,674	2,576	99,250
Treasury stock	(6,638)	--	--	(6,638)	--	(6,638)	--	(6,638)
	8,986	7,727	(7,727)	8,986	81,050	90,036	2,576	92,612
Total liabilities and stockholders' equity	\$78,240	\$11,539	\$ 23,442	\$113,221	\$ 18,950	\$132,171	\$ 3,829	\$136,000

	PHIPPS	PRO FORMA	PRO FORMA
	BUSINESS	ADJUSTMENTS	COMBINED (12)
ASSETS:			
Cash	\$ 620	\$(185,000)(8)	\$ 560
		144,750(10)	
		11,800(11)	
		(620)(9)	
Trade accounts receivable	5,153	--	16,461
Recoverable income taxes	--	--	--

Inventories	--	--	553
Current portion of program broadcast rights	919	--	2,532
Prepaid expenses and other current assets	348	(348)(9)	286
	-----	-----	-----
Total current assets	7,040	(29,418)	20,392
Property and equipment -- net	10,493	--	27,942
Other assets			
Deferred acquisition costs	--	--	454
Deferred loan costs	--	5,250(10) 1,500(11)	8,733
Goodwill and other intangibles	9,455	9,455(9) 169,960(8)	242,048
Other	575	--	1,831
	-----	-----	-----
Total other assets	10,030	167,255	253,066
	-----	-----	-----
Total assets	\$27,563	\$137,837	\$301,400
	-----	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY:			
Trade accounts payable	\$ 366	\$ (366)(9)	\$ 3,753
Employee compensation and benefits	--	--	4,213
Accrued expenses	907	(907)(9)	1,013
Accrued interest	--	--	1,064
Income taxes payable	--	--	1,461
Current portion of broadcast program obligations	922	--	2,560
Deferred paging service income	833	--	833
Current portion of long-term debt	1,390	(1,390)(9)	2,862
	-----	-----	-----
Total current liabilities	4,418	(2,663)	17,759
Long-term debt	3,420	(3,420)(9) 13,300(11) 150,000(10)	186,391
Deferred credits	345	--	4,638
Minority interests	586	(586)(9)	--
Stockholders' equity			
Series A Preferred Stock	--	--	10,000
Series B Preferred Stock	--	--	10,000
Class A Common Stock, no par value	--	--	6,796
Class B Common Stock, no par value	--	--	61,050
Retained earnings	--	--	11,404
Net equity of acquired operations	18,794	(18,794)(8)	--
	-----	-----	-----
Treasury stock	18,794	(18,794)	99,250
	--	--	(6,638)
	-----	-----	-----
	18,794	(18,794)	92,612
	-----	-----	-----
Total liabilities and stockholders' equity	\$27,563	\$137,837	\$301,400
	-----	-----	-----
	-----	-----	-----

The pro forma adjustments to reflect the Augusta Acquisition, the Stock Offering, the Note Offering, the KTVE Sale, the Phipps Acquisition and the Financing are as follows:

BALANCE SHEET -- DECEMBER 31, 1995

1. Reflects the Augusta Acquisition, including a \$1.5 million deposit which was recorded as a deferred acquisition cost by the Company at December 31, 1995. Pursuant to the acquisition agreement, cash balances were retained by the seller and certain accounts payable were paid prior to closing. The Company has recorded a preliminary allocation of the purchase price of \$35.9 million to the tangible assets and liabilities based upon estimates of fair market value at January 4, 1996 as follows:

Trade accounts receivable.....	\$ 1,748
Current portion of program broadcast rights.....	924
Prepaid expenses and other current assets.....	55
Property and equipment.....	2,180
Goodwill and other intangibles.....	32,406
Other.....	2,571
Accrued expenses.....	(452)
Current portion of program broadcast obligations.....	(898)
Deferred credits.....	(2,681)

Purchase price of the Augusta Business including expenses...	\$ 35,853

Historical book value of the Augusta Business.....	\$ (7,727)
Assets not acquired and liabilities not assumed -- net.....	4,280

Net assets acquired.....	(3,447)
Purchase price of Augusta Business.....	35,853

Goodwill and other intangibles.....	\$ 32,406

The excess of purchase price over amounts allocated to the net tangible assets will be amortized on a straight-line basis over a 40-year period. Also reflects the elimination of assets of the Augusta Business which were not purchased by the Company.

2. Reflects an adjustment in accounting method for recording film exhibition rights and liabilities to conform to the Company's accounting method.
3. Reflects purchase costs and financing fees and expenses associated with the Augusta Acquisition which were previously treated as deferred acquisition costs.
4. Reflects the sale of the 8% Note and additional borrowings of \$23.7 million under the Senior Credit Facility.
5. Reflects the issuance net of fees and expenses of (i) approximately 3,500,000 shares of Class B Common Stock at an estimated \$19 per share pursuant to the Stock Offering, (ii) Series A Preferred Stock in exchange for the 8% Note and (iii) \$10 million of Series B Preferred Stock to certain affiliates of the Company.
6. Reflects a repayment of \$52.1 million on the Senior Credit Facility from funds available subsequent to the Stock Offering.
7. Reflects the proposed KTVE Sale for \$9.5 million plus the amount of the accounts receivable on the date of the closing. The transaction is subject to regulatory approval and is expected to close by September 1996, although there can be no assurance with respect thereto.
8. Reflects the purchase of the Phipps Business and a preliminary allocation of the purchase price of \$185.0 million to the tangible assets and liabilities based upon estimates of fair market value at December 31, 1995 as follows:

Trade accounts receivable.....	\$ 5,153
Current portion of program broadcast rights.....	919
Property and equipment.....	10,493
Goodwill and other intangibles.....	169,960
Other.....	575
Current portion of broadcast program obligations.....	(922)
Deferred paging service income.....	(833)
Deferred credits.....	(345)

Purchase price of Phipps Business including expenses.....	\$ 185,000

Historical book value of Phipps Business.....	\$ (18,794)
Assets not acquired and liabilities not assumed -- net.....	3,754

Net assets acquired.....	(15,040)
Purchase price of Phipps Business.....	185,000

Goodwill and other intangibles.....	\$ 169,960

The excess of purchase price over amounts allocated to net tangible assets will be amortized on a straight-line basis over a 40-year period. The allocation of the purchase price is subject to adjustment based upon the results of pending appraisals.

9. Reflects the elimination of certain of the assets and liabilities of the Phipps Business, which were not included in the Phipps Acquisition.
10. Reflects the issuance of the Notes pursuant to the Note Offering and fees and expenses associated with the Note Offering.
11. Reflects borrowings of \$13.3 million under the Senior Credit Facility in order to complete the Phipps Acquisition and estimated expenses of \$1.5 million in connection with the contemplated amendment to the Senior Credit Facility.
12. In connection with the Phipps Acquisition, the Company is seeking FCC approval of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest its current ownership interest in WALB and WJHG. In order to satisfy applicable FCC requirements, 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 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC.

Condensed balance sheets of WALB and WJHG are as follows:

	YEAR ENDED DECEMBER 31, 1995	
	WALB	WJHG
Current assets.....	\$ 1,996	\$ 822
Property and equipment.....	1,806	973
Other assets.....	67	3
Total assets.....	\$ 3,869	\$ 1,798
Current liabilities.....	\$ 985	\$ 447
Other liabilities.....	227	--
Stockholders' equity.....	2,657	1,351
Total liabilities and stockholders equity.....	\$ 3,869	\$ 1,798

SELECTED HISTORICAL FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT RATIO AND PER SHARE DATA)

SELECTED FINANCIAL DATA OF THE COMPANY

Set forth below are certain selected historical consolidated financial data of the Company. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations of the Company." The selected consolidated financial data for, and as of the end of, each of the years in the four-year period ended December 31, 1995 are derived from the audited consolidated financial statements of the Company. The selected consolidated financial data for, and as of the year ended December 31, 1991 are derived from unaudited financial statements, since the Company had a June 30 fiscal year end.

	YEAR ENDED DECEMBER 31,				
	1991	1992	1993	1994	1995
	(UNAUDITED)				
STATEMENT OF INCOME DATA:					
Operating revenues:					
Broadcasting (less agency commissions).....	\$ 13,553	\$ 15,131	\$ 15,004	\$ 22,826	\$ 36,750
Publishing.....	8,968	9,512	10,109	13,692	21,866
Total revenues.....	22,521	24,643	25,113	36,518	58,616
Expenses:					
Broadcasting.....	9,672	9,753	10,029	14,864	23,202
Publishing.....	6,444	6,752	7,662	11,198	20,016
Corporate and administrative.....	1,889	2,627	2,326	1,959	2,258
Depreciation.....	1,487	1,197	1,388	1,745	2,633
Amortization of intangible assets.....	14	44	177	396	1,326
Non-cash compensation paid in common stock.....	--	--	--	80	2,321
Total expenses.....	19,506	20,373	21,582	30,242	51,756
Operating income.....	3,015	4,270	3,531	6,276	6,860
Miscellaneous income (expense), net.....	778	(1,519)	202	189	143
Income from continuing operations before interest expense and income taxes.....	3,793	2,751	3,733	6,465	7,003
Interest expense.....	787	1,486	985	1,923	5,438
Income from continuing operations before income taxes.....	3,006	1,265	2,748	4,542	1,565
Federal and state income taxes.....	1,156	869	1,068	1,776	634
Income from continuing operations.....	1,850	396	1,680	2,766	931
Discontinued business:					
Income (loss) from operations of discontinued business, net of applicable income tax expense (benefit) of (\$55), (\$79) and \$30, respectively.....	(90)	(129)	48	--	--
Gain on disposal of discontinued business, net of applicable income tax expense of \$501.....	--	--	818	--	--
Net income.....	\$ 1,760	\$ 267	\$ 2,546	\$ 2,766	\$ 931
Average outstanding common shares (000s).....	6,469	4,668	4,611	4,689	4,481
Income from continuing operations per common share.....	\$ 0.29	\$ 0.09	\$ 0.36	\$ 0.39	\$ 0.21
Cash dividends per common share.....	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.08
BALANCE SHEET DATA (AT END OF PERIOD):					
Working capital.....	\$ 6,740	\$ 2,976	\$ 2,579	\$ 1,075	\$ (221)
Total assets.....	31,548	24,173	21,372	68,789	78,240
Total debt.....	20,378	12,412	7,759	52,940	54,325
Total stockholders' equity.....	5,853	4,850	7,118	5,001	8,986
OTHER DATA:					
Media Cash Flow (1).....	\$ 6,405	\$ 8,079	\$ 7,371	\$ 10,522	\$ 15,559
Operating cash flow (2).....	4,516	5,452	5,044	8,567	13,309
EBITDA (3).....	4,516	5,512	5,095	8,498	13,140
Capital expenditures.....	2,235	2,216	2,582	1,768	3,280
Ratio of Media Cash Flow to interest expense.....	8.1	5.4	7.5	5.5	2.9
Ratio of operating cash flow to interest expense.....	5.7	3.7	5.1	4.5	2.4
Ratio of total debt to Media Cash Flow.....	3.2	1.5	1.1	5.0	3.5

Ratio of total debt to operating cash flow.....	4.5	2.3	1.5	6.2	4.1
Ratio of earnings to fixed charges (4).....	4.7	1.8	3.4	3.1	1.3

-
- (1) Media Cash Flow represents operating income plus depreciation and amortization (including amortization of program license rights), non-cash compensation and corporate overhead, less payments of program license liabilities.
 - (2) Operating cash flow represents operating income plus depreciation, amortization (including amortization of program license rights) and non-cash compensation, less payments for program license liabilities.
 - (3) EBITDA represents operating income plus (i) depreciation and amortization (excluding amortization of program license rights) and (ii) non-cash compensation paid in common stock (excluding stock payments made to the 401(k) plan). EBITDA is presented not as a measure of operating results, but rather to provide additional information related to the Company's ability to service debt. EBITDA should not be considered as an alternative to either (x) operating income determined in accordance with generally accepted accounting principles ("GAAP") as an indicator of operating performance or (y) cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity.
 - (4) For purposes of this item, "fixed charges" represent interest, the interest element of rental expense, capitalized interest and amortization of debt issuance costs and "earnings" represent net income (loss) before income taxes, discontinued operations, extraordinary items, cumulative effect of change in accounting principles and fixed charges.

SELECTED FINANCIAL DATA OF THE PHIPPS BUSINESS

Set forth below are certain selected historical financial data of the Phipps Business. This information should be read in conjunction with the financial statements of the Phipps Business and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations of the Phipps Business." The selected historical financial data for, and as of the end of, each of the years in the three-year period ended December 31, 1995 are derived from the audited financial statements of the Phipps Business. The selected financial data for, and as of the end of, each of the years ended December 31, 1991 and 1992 are derived from the unaudited accounting records of the Phipps Business.

	YEAR ENDED DECEMBER 31,				
	1991	1992(1)	1993	1994	1995
	(UNAUDITED)	(UNAUDITED)			
STATEMENT OF INCOME DATA:					
Operating revenues:					
Broadcasting (less agency commissions).....	\$ 10,492	\$ 14,523	\$ 19,460	\$ 21,524	\$ 22,424
Paging.....	3,369	3,646	3,788	4,277	4,897
Total revenues.....	13,861	18,169	23,248	25,801	27,321
Expenses:					
Broadcasting.....	5,298	7,518	10,734	10,211	10,487
Paging.....	2,356	2,298	2,529	2,764	3,052
Management fees.....	579	973	2,462	2,486	3,280
Depreciation and amortization.....	1,513	1,734	2,836	2,672	3,120
Total expenses.....	9,746	12,523	18,561	18,133	19,939
Operating income.....	4,115	5,646	4,687	7,668	7,382
Miscellaneous income (expense), net.....	5	8	16	666	12
Income before interest expense and minority interests.....	4,120	5,654	4,703	8,334	7,394
Interest expense.....	162	442	632	480	499
Income before minority interests.....	3,958	5,212	4,071	7,854	6,895
Minority interests.....	--	331	140	635	547
Net income.....	\$ 3,958	\$ 4,881	\$ 3,931	\$ 7,219	\$ 6,348
Supplemental unaudited pro forma information: (2)					
Net income, as above.....	3,958	4,881	3,931	7,219	6,348
Pro forma provision for income tax expense.....	1,504	1,855	1,500	2,743	2,413
Pro forma net income.....	\$ 2,454	\$ 3,026	\$ 2,431	\$ 4,476	\$ 3,935
BALANCE SHEET DATA (AT END OF PERIOD):					
Working capital.....	\$ 595	\$ 615	\$ 1,127	\$ 1,421	\$ 2,622
Total assets.....	8,931	25,068	24,819	25,298	27,562
Total debt.....	1,388	7,697	6,542	6,065	4,810
Minority interests.....	--	1,154	824	728	586
Owner's equity.....	6,351	13,276	14,306	15,465	18,794
OTHER DATA:					
Media Cash Flow (3).....	\$ 6,207	\$ 7,968	\$ 10,466	\$ 12,983	\$ 13,696
Operating cash flow (4).....	5,628	6,994	8,003	10,498	10,416
EBITDA (5).....	5,627	7,380	7,523	10,340	10,502
Capital expenditures.....	1,005	2,258	3,538	3,353	3,188

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

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

(3) Media Cash Flow represents operating income plus depreciation, amortization (including amortization of program license rights) and corporate overhead less payments of program license liabilities.

(4) Operating cash flow represents operating income plus depreciation and amortization (including amortization of program license rights) less payments for program license liabilities.

(5) EBITDA represents operating income plus depreciation and amortization (excluding amortization of program license rights). EBITDA is presented not as a measure of operating results, but rather to provide additional information related to the Company's ability to service debt. EBITDA should not be considered as an alternative to either (x) operating income determined in accordance with GAAP as an indicator of operating performance or (y) cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity.

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 consolidated financial statements and notes thereto included elsewhere in this Prospectus.

The Company derives its revenues from its television broadcasting and publishing operations. As a result of the Kentucky Acquisition (as defined) in 1994, the proportion of the Company's revenues derived from television broadcasting has increased and this proportion will continue to increase as a result of the Augusta Acquisition, which was completed in January 1996, and the Phipps Acquisition, which is expected to occur by September 1996. 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 contribution of the Company's publishing operations. Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Company's television broadcasting and publishing operations (dollars in thousands):

	YEAR ENDED DECEMBER 31,					
	1993		1994		1995	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
TELEVISION BROADCASTING						
Revenues	\$ 15,003.7	59.8%	\$ 22,826.4	62.5%	\$ 36,750.0	62.7%
Operating income (1)	4,070.6	66.9	6,556.0	78.4	10,585.2	94.1
PUBLISHING						
Revenues	\$ 10,109.4	40.2%	\$ 13,692.0	37.5%	\$ 21,866.2	37.3%
Operating income (1)	2,009.1	33.1	1,804.0	21.6	660.2	5.9

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

TELEVISION BROADCASTING

Set forth below are the principal types of broadcasting revenues earned by the Company's television stations for the periods indicated and the percentage contribution of each to total Company revenues (dollars in thousands):

	YEAR ENDED DECEMBER 31,					
	1993		1994		1995	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
Net revenues:						
Local	\$ 7,312.3	29.2%	\$ 12,191.4	33.4%	\$ 20,888.1	35.6%
National	6,102.8	24.3	7,804.4	21.4	10,881.1	18.6
Network compensation	1,286.1	5.1	1,297.5	3.5	2,486.8	4.2
Political	17.7	0.1	1,029.0	2.8	1,174.2	2.0
Production and other	284.8	1.1	504.1	1.4	1,319.8	2.3
	-----	-----	-----	-----	-----	-----
	\$ 15,003.7	59.8%	\$ 22,826.4	62.5%	\$ 36,750.0	62.7%
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In the Company's broadcasting operations, broadcast advertising is sold for placement either preceding or following a television stations' 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. 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. The Company estimates that approximately 56.5% of the annual gross revenues of the Company's television stations for the year ended December 31, 1995 were generated from local advertising, which is sold by a station's sales staff directly to local accounts, and the remainder represents national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising.

Broadcast advertising revenues are generally highest in the second and fourth quarters of each year, due in part to increases in retail advertising in the spring and 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 broadcasting operations' primary operating expenses are employee compensation, related benefits and programming costs. In addition, the broadcasting operations incur overhead expenses such as maintenance, supplies, insurance, rent and utilities. A large portion of the operating expenses of the broadcasting operations is fixed.

PUBLISHING

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

	YEAR ENDED DECEMBER 31,					
	1993		1994		1995	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
Revenues:						
Retail advertising	\$ 5,734.3	22.8%	\$ 7,460.3	20.4%	\$ 11,044.2	18.8%
Classified	2,336.5	9.3	3,174.2	8.7	5,323.8	9.1
Circulation	2,011.8	8.0	2,628.9	7.2	3,783.8	6.5
Other	26.8	0.1	428.6	1.2	1,714.4	2.9
	-----	---	-----	---	-----	---
	\$ 10,109.4	40.2%	\$ 13,692.0	37.5%	\$ 21,866.2	37.3%
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In the Company's publishing operations, advertising contracts are generally annual and primarily provide for a commitment as to the volume of advertising purchased by a customer. The publishing operations' advertising revenues are primarily generated from retail advertising. As with the broadcasting operations, the publishing operations' revenues are generally highest in the second and fourth quarters of each year.

The publishing operations' primary operating expenses are employee compensation, related benefits and newsprint costs. In addition, publishing operations incur overhead expenses such as maintenance, supplies, insurance, rent and utilities. A large portion of the operating expenses of the publishing 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 both the broadcast and publishing operations for the years ended December 31, 1993, 1994 and 1995 (dollars in thousands):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Operating income	\$ 3,530.7	\$ 6,276.4	\$ 6,859.7
Add:			
Amortization of program license rights	924.9	1,218.0	1,647.0
Depreciation and amortization	1,564.8	2,141.6	3,958.9
Corporate overhead	2,326.7	1,958.4	2,258.3
Non-cash compensation and contributions to the Company's 401(k) plan, paid in common stock	--	109.5	2,612.2
Less:			
Payments for program license liabilities	(976.2)	(1,181.6)	(1,776.8)
Media Cash Flow (1)	\$ 7,370.9	\$ 10,522.3	\$ 15,559.3

(1) Of Media Cash Flow, \$4.9 million, \$8.0 million and \$13.6 million was attributable to the Company's broadcasting operations in 1993, 1994 and 1995, respectively.

"Media Cash Flow" is defined as operating income from broadcast and publishing operations (and includes paging with regard to the Phipps Business) 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 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 consolidated financial statements of the Company and is not a measure of financial performance under GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

ACQUISITIONS

Since 1994, the Company has completed several broadcasting and publishing acquisitions. The operating results of the Company reflect significant increases in substantially all line items between the years ended December 31, 1994 and December 31, 1995. The principal reason for these increases is the acquisition by the Company in September 1994 of WKYT and WYMT (together, the "Kentucky Business") for \$38.1 million and the assumption of \$2.3 million of liabilities (the "Kentucky Acquisition"). In addition, during 1994 the Company acquired THE ROCKDALE CITIZEN for approximately \$4.8 million (May 1994) and four shoppers for approximately \$1.5 million (October 1994) (collectively the "1994 Publishing Acquisitions"), and during 1995 the Company acquired the GWINNETT DAILY POST for approximately \$3.7 million (January 1995) and three shoppers for an aggregate purchase price of approximately \$1.4 million (September 1995) (collectively the "1995 Publishing Acquisitions"). The 1994 Publishing Acquisitions and the 1995 Publishing Acquisitions are collectively referred to as the "Publishing Acquisitions."

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

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

Broadcast net revenues increased \$13.9 million or 61.0% over the prior year, from \$22.8 million to \$36.7 million. Revenues generated by the Kentucky Acquisition accounted for \$12.9 million or 92.8% of the

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

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

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

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

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

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

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

Non-cash compensation paid in Class A Common Stock resulted from the Company's employment agreements with its current President and its former chief executive officer. The current President's employment agreement provides him with 122,034 shares of Class A Common Stock if his employment continues until September 1999. The Company will recognize \$1.2 million of compensation expense for this award ratably over such five-year period. This agreement resulted in a charge to expense of \$240,000 for the year ended December 31, 1995 as compared to \$80,000 for the year ended December 31, 1994. In addition, the Company awarded 150,000 shares of Class A Common Stock, pursuant to the amended employment agreement with its former chief executive officer, which resulted in an expense of \$2.1 million, all of which was recognized in 1995.

INTEREST EXPENSE. Interest expense increased \$3.5 million or 182.8%, from \$1.9 million for the year ended December 31, 1994 to \$5.4 million for the year ended December 31, 1995. This increase was attributable primarily to increased levels of debt resulting from the financing of the Kentucky Acquisition and the Publishing Acquisitions. The Company entered into a \$25 million notional amount five year interest rate swap agreement on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. Most of the Company's outstanding debt under the Senior Credit Facility is subject to this interest rate swap. The Company recorded approximately \$34,000 of interest expense relative to the interest rate swap in 1995. The effective interest rate of the Senior Credit Facility and interest rate swap at December 31, 1995 was approximately 8.64% and 9.10%, respectively.

YEAR ENDED DECEMBER 31, 1994 COMPARED TO YEAR ENDED DECEMBER 31, 1993

REVENUES. Total revenues for the year ended December 31, 1994 increased \$11.4 million or 45.4% over the year ended December 31, 1993, from \$25.1 million to \$36.5 million. Excluding the Kentucky Acquisition and the 1994 Publishing Acquisitions, the increase was \$3.1 million or 12.3%.

Broadcast net revenues increased \$7.8 million or 52.1% over the prior year, from \$15.0 million to \$22.8 million. Broadcast net revenues, excluding the Kentucky Acquisition, increased 9.8% or \$1.5 million over the prior year. The Kentucky Acquisition contributed \$6.3 million to this increase. Excluding the Kentucky Acquisition, approximately \$921,000 of the \$1.5 million increase was a result of higher levels of political advertising spending due to cyclical election activity in the Company's broadcast markets. Excluding the Kentucky Acquisition, local and national advertising contributed an additional \$668,000 to the revenue increase. These increases were offset by decreased network compensation related to the preemption of network programming in favor of local advertising.

Publishing revenues increased \$3.6 million or 35.4% over the prior year, from \$10.1 million to \$13.7 million. The 1994 Publishing Acquisitions contributed \$2.0 million to this increase. Publishing revenues, excluding the 1994 Publishing Acquisitions, increased \$1.6 million over the prior year. Advertising and circulation revenues comprised \$833,000 and \$436,000, respectively, of the revenue increase. Special events and commercial printing services accounted for \$344,000 of the revenue increase.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1994 increased \$8.7 million or 40.1% over the year ended December 31, 1993, from \$21.6 million to \$30.3 million, attributable primarily to the Kentucky Acquisition and the 1994 Publishing Acquisitions.

Broadcasting expenses increased \$4.8 million or 48.2% over the prior year, from \$10.0 million to \$14.8 million primarily due to the Kentucky Acquisition. Broadcasting expenses, excluding the Kentucky Acquisition, increased approximately \$1.0 million, or 10.0%, over the prior year from \$10.0 million to \$11.0 million. This increase was attributable to increased payroll related costs associated with improvement of news programming, costs associated with coverage of the 1994 flood in Albany, Georgia and other costs related to on-air product upgrades at the stations.

Publishing expenses increased \$3.5 million or 46.1% over the prior year, from \$7.7 million to \$11.2 million primarily as a result of the 1994 Publishing Acquisitions. Publishing expenses, excluding the 1994 Publishing Acquisitions, increased approximately \$1.6 million or 20.9% during the year ended December 31, 1994, as compared to the prior year. This increase was primarily attributable to an 11.9% increase in newsprint usage, payroll related costs and other product improvement costs associated with format changes and expanded market coverage of THE ALBANY HERALD.

Corporate and administrative expenses decreased \$368,000 or 15.8% during the year ended December 31, 1994, from \$2.3 million to \$1.9 million. This decrease can be attributed to lower professional fees and related expenses.

Depreciation of property and equipment and amortization of intangible assets was \$2.2 million for the year ended December 31, 1994 compared to \$1.6 million for the prior year, an increase of \$577,000 or 36.9%. This increase was due principally from the depreciation and amortization expense related to the assets acquired in the Kentucky Acquisition and 1994 Publishing Acquisitions.

INTEREST EXPENSE. Interest expense was \$1.9 million for the year ended December 31, 1994 compared to \$985,000 for the prior year, an increase of \$938,000 or 95.3%. This increase was due primarily to increased levels of debt resulting from the financing of the Kentucky Acquisition and the 1994 Publishing Acquisitions. At December 31, 1993 and 1994 the Company's outstanding debt was \$7.3 million and \$52.9 million, respectively.

RESULTS OF OPERATIONS OF THE PHIPPS BUSINESS

INTRODUCTION

The following analysis of the financial condition and results of operations of the Phipps Business should be read in conjunction with the Phipps Business's consolidated financial statements and notes thereto included elsewhere in this Prospectus.

The Phipps Business derives its revenues from its television broadcasting operations which consist of two CBS-affiliated television stations serving Tallahassee, Florida/Thomasville, Georgia and Knoxville, Tennessee, a satellite broadcasting business based in Tallahassee, Florida and a paging business also based in Tallahassee, Florida.

Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Phipps Business's broadcasting (including satellite broadcasting) and paging operations (dollars in thousands):

	YEAR ENDED DECEMBER 31,					
	1993		1994		1995	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
TELEVISION BROADCASTING						
Revenues	\$19,460.1	83.7%	\$21,524.3	83.4%	\$22,424.1	82.1%
Operating income (1)	6,636.4	92.8	9,298.1	91.6	9,635.3	90.4
PAGING						
Revenues	\$3,787.9	16.3%	\$4,276.6	16.6%	\$4,897.5	17.9%
Operating income (1)	512.7	7.2	854.9	8.4	1,026.9	9.6

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

TELEVISION BROADCASTING AND PAGING REVENUES

Set forth below are the principal types of broadcast net revenues earned by the Phipps Business's television stations (including the satellite broadcasting operation) for the periods indicated and the percentage contribution of each to the Phipps Business's total revenues (dollars in thousands):

	YEAR ENDED DECEMBER 31,					
	1993		1994		1995	
	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS
TELEVISION BROADCASTING						
Net revenues:						
Local	\$9,732.8	41.9%	\$10,412.2	40.4%	\$11,149.2	40.8%
National	7,057.2	30.4	7,217.0	27.9	7,844.9	28.7
Network compensation	1,164.6	5.0	1,433.2	5.6	1,740.1	6.4
Political	9.1	0.0	1,147.1	4.4	33.9	0.1
Production and other (1)	1,496.4	6.4	1,314.8	5.1	1,656.0	6.1
	\$19,460.1	83.7%	\$21,524.3	83.4%	\$22,424.1	82.1%

(1) Includes satellite broadcasting business.

Set forth below are the principal types of revenues earned by the Phipps Business's paging operations for the periods indicated and the percentage contribution of each to the Phipps Business's total revenues (dollars in thousands):

	YEAR ENDED DECEMBER 31,					
	1993		1994		1995	
	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS
PAGING						
Net revenues:						
Paging lease and service	\$3,741.6	16.1%	\$4,201.4	16.3%	\$5,004.9	18.3%
Other income (expense), net	46.3	0.2	75.2	0.3	(107.4)	(.4)
	\$3,787.9	16.3%	\$4,276.6	16.6%	\$4,897.5	17.9%

MEDIA CASH FLOW

The following table sets forth certain operating data for the broadcast and paging operations for the years ended December 31, 1993, 1994 and 1995 (dollars in thousands):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Operating income	\$4,686.9	\$7,667.6	\$7,381.8
Add:			
Amortization of program license rights	1,552.4	1,021.4	844.8
Depreciation and amortization	2,836.0	2,672.2	3,120.4
Corporate overhead	2,462.2	2,485.4	3,280.4
Less:			
Payments for program license liabilities	(1,072.0)	(863.3)	(931.0)
Media Cash Flow (1)	\$10,465.5	\$12,983.3	\$13,696.4

(1) Of Media Cash Flow, \$9.2 million, \$11.5 million and \$11.9 million was attributable to the Phipps Business's broadcasting operations in 1993, 1994 and 1995, respectively.

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

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

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

Net paging revenues increased \$621,000 or 14.5% over the prior year, from \$4.3 million to \$4.9 million. The increase was attributable primarily to higher sales volume generated by a reseller program implemented during 1995.

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

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

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

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

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

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

YEAR ENDED DECEMBER 31, 1994 COMPARED TO YEAR ENDED DECEMBER 31, 1993

REVENUES. Total revenues for the year ended December 31, 1994 increased \$2.6 million or 11.0% over the year ended December 31, 1993, from \$23.2 million to \$25.8 million. This increase was attributable to higher local, national and political advertising as well as an increase in network compensation. In addition, paging revenues increased as geographic coverage expanded.

Broadcast net revenues increased \$2.1 million or 10.6% over the prior year, from \$19.5 million to \$21.5 million. Approximately \$679,000 and \$160,000 of the \$2.1 million increase in total broadcast net revenues is due to higher local and national advertising spending, respectively. Approximately \$269,000 and \$1.1 million of the \$2.1 million increase is due to higher network compensation and political advertising revenues associated with cyclical political activity, respectively, offset by a \$182,000 decrease in satellite broadcasting revenues.

Net paging revenues increased \$489,000 or 12.9% over the prior year, from \$3.8 million to \$4.3 million. The increase was attributable primarily to higher sales volume due to increased geographical coverage.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1994 decreased \$428,000 or 2.3% from the year ended December 31, 1993, from \$18.6 million to \$18.2 million. The decrease was attributable primarily to lower syndicated programming costs, offset by slightly higher paging expenses due to higher sales volume and lower depreciation and amortization.

Broadcasting expenses decreased \$523,000 or 4.9% from the prior year, from \$10.7 million to \$10.2 million. The decrease was attributable primarily to the write-off of certain syndicated programming in 1993 that was not being utilized.

Paging expenses increased \$235,000 or 9.3% over the prior year, from \$2.5 million to \$2.8 million. The increase was attributable primarily to costs associated with higher sales volume.

Corporate and administrative expenses remained relatively unchanged from year to year.

Depreciation of property and equipment and amortization of intangible assets for the year ended December 31, 1994 decreased \$164,000 or 5.8% from the year ended December 31, 1993, from \$2.8 million to \$2.7 million. This decrease was primarily the result of the completion of depreciation for certain items of equipment purchased in 1988.

INTEREST EXPENSE. Interest expense for the year ended December 31, 1994 decreased \$152,000 or 24.0% from the year ended December 31, 1993, from \$632,000 to \$480,000. This decrease was attributable primarily to lower levels of debt associated with WKXT.

LIQUIDITY AND CAPITAL RESOURCES

Following the consummation of the KTVE Sale, the Phipps Acquisition, the Financing, the Stock Offering, and the Note Offering, the Company will be highly leveraged. The Company anticipates that its principal uses of cash for the next several years will be working capital and debt service requirements, cash dividends, capital expenditures and expenditures related to additional acquisitions. The Company anticipates that its operating cash flow, together with borrowings available under the Senior Credit Facility, will be sufficient for such purposes.

The Company's working capital (deficiency) was \$1.1 million and \$(221,000) at December 31, 1994 and 1995, respectively. The working capital of the Phipps Business was \$1.4 million and \$2.6 million at December 31, 1994 and 1995 respectively. The Company's cash provided from operations was \$5.8 million and \$7.6 million for the years ended December 31, 1994 and 1995, respectively. The Phipps Business's cash provided from operations was \$9.8 million and \$9.3 million for the years ended December 31, 1994 and 1995, respectively.

The Company's cash used in investing activities was \$42.8 million and \$8.9 million in 1994 and 1995, respectively. The change of \$(45.9) million from 1993 to 1994 was due primarily to the Kentucky Acquisition and the 1994 Publishing Acquisitions. The change of \$33.9 million from 1994 to 1995 was due primarily to the Kentucky Acquisition and the 1994 Publishing Acquisitions, partially offset by the 1995 Publishing Acquisitions and the deferred costs related to the Augusta Acquisition. The Phipps Business's cash used in investing activities was \$2.5 million and \$3.8 million in 1994 and 1995, respectively.

The Company used \$4.9 million in cash in 1993, and was provided \$37.2 million and \$1.3 million in cash by financing activities in 1994 and 1995, respectively. The use of cash in 1993 resulted primarily from the repayment of debt while cash provided by financing activities in 1994 and 1995 was principally due to increased borrowings in 1994 to finance the Kentucky Acquisition and the 1994 Publishing Acquisitions, as well as increased borrowings in 1995 to finance the 1995 Publishing Acquisitions and the funding of the deposit for the Augusta Acquisition. Long-term debt was \$54.3 million at December 31, 1995. On January 4, 1996, the Company acquired the Augusta Business. The cash consideration of approximately \$35.9 million, including acquisition costs of approximately \$600,000, was financed primarily through long-term borrowings under the Senior Credit Facility and through the sale of the 8% Note to Bull Run Corporation. For the year ended December 31, 1995, the Augusta Business reported net revenues and broadcast cash flow of \$8.7 million and \$2.8 million, respectively. The Phipps Business used \$7.2 million and \$4.9 million in cash for financing activities in 1994 and 1995, respectively.

In 1995, the Company made \$3.3 million in capital expenditures, relating primarily to the broadcasting operations and paid \$1.8 million for program broadcast rights. In 1995, the Phipps Business made \$3.2 million in capital expenditures, and paid \$931,000 for program broadcast rights. The Company anticipates making \$3.0 million in capital expenditures and \$2.7 million in payments for program broadcast rights in 1996. Subsequent to the consummation of the Phipps Acquisition, the Company anticipates that its annual capital expenditures will approximate \$5 million.

In addition to the consummation of the Phipps Acquisition, the Company intends to implement the Financing to increase liquidity and improve operating and financial flexibility. Pursuant to the Financing, the Company will (i) repay approximately \$38.8 million principal amount of outstanding indebtedness under the Senior Credit Facility, together with accrued interest thereon and to amend the terms thereof, (ii) issue \$10 million liquidation preference of its Series A Preferred Stock in exchange for the 8% Note issued to Bull Run Corporation, (iii) issue an affiliate \$10 million liquidation preference of its Series B Preferred Stock with warrants to purchase up to 500,000 shares representing approximately 11.3% of the outstanding Class A Common Stock for cash proceeds of \$10 million and (iv) revise the terms of the Senior Note.

The Senior Credit Facility is a \$55.0 million line of credit available for working capital requirements and general corporate purposes. The Senior Credit Facility matures in March 2003 with increasing quarterly amortization, includes certain customary financial covenants and bears interest at a rate of 3.5% over LIBOR, subject to adjustment based on the Company's leverage ratio. The Senior Credit Facility also requires the Company to use its annual Excess Cash Flow (as defined) to repay indebtedness thereunder at the end of each year. As of December 31, 1995, on a pro forma basis after giving effect to the Augusta Acquisition, the KTVE Sale, the Stock Offering, the Note Offering, the Phipps Acquisition and the Financing, the Company would have been able to incur approximately \$41.7 million of additional indebtedness pursuant to the Senior Credit Facility, none of which could have been borrowed thereunder due to the covenant restrictions contained in the Senior Credit Facility. The Senior Credit Facility is guaranteed by each of the Company's subsidiaries and is secured by liens on substantially all of the assets of the Company and its subsidiaries.

As part of the Financing and as a condition of the Note Offering, the Company will amend or replace the Senior Credit Facility and the Company is currently engaged in negotiations with certain institutional lenders with respect thereto.

The Senior Note provides for semi-annual principal payments of \$2.5 million beginning March 1999. Interest is payable semi-annually in arrears and the Senior Note, as amended on January 4, 1996, bears interest at 10.7% per annum. The agreement pursuant to which the Senior Note was issued contains certain restrictive provisions, which, among other things, limit capital expenditures and additional indebtedness, and require minimum levels of net worth and cash flows. As part of the Financing, the Company intends to amend the Senior Note to increase the interest rate to 11.2% per annum and to amend certain covenants.

The Company has entered into a non-binding letter of intent to sell KTVE for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of the closing, which is expected to occur by September 1996. The Company anticipates the taxes for the KTVE Sale will aggregate approximately \$2.8 million.

In connection with the Phipps Acquisition, the Company will be required to divest WALB and WJHG under current FCC regulations. However, these rules may be revised by the FCC upon conclusion of pending rulemaking proceedings. In order to satisfy applicable FCC requirements, 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 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC under the waivers, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. It is anticipated that the Company would be required to relinquish operating control of such assets 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, 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. On a pro forma basis after giving effect to the Augusta Acquisition, the KTVE Sale, the Stock Offering, the Note Offering, the Financing and the Phipps Acquisition, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

The Company 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.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Gray Communications Systems, Inc.

We have audited the accompanying consolidated balance sheets of Gray Communications Systems, Inc. as of December 31, 1994 and 1995 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gray Communications Systems, Inc. at December 31, 1994 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LLP

Columbus, Georgia
February 14, 1996

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1994	1995
ASSETS		
Current assets (NOTE C):		
Cash and cash equivalents	\$558,520	\$559,991
Trade accounts receivable, less allowance for doubtful accounts of \$694,000 and \$450,000, respectively	8,448,366	9,560,274
Recoverable income taxes	-0-	1,347,007
Inventories	368,202	553,032
Current portion of program broadcast rights	1,195,633	1,153,058
Other current assets	247,687	263,600
	10,818,408	13,436,962
Property and equipment (NOTES B AND C):		
Land	646,562	758,944
Buildings and improvements	8,594,343	8,630,694
Equipment	24,781,964	28,229,255
	34,022,869	37,618,893
Allowance for depreciation	(17,999,752)	(20,601,819)
	16,023,117	17,017,074
Other assets (NOTE C):		
Deferred acquisition costs (NOTE B)	-0-	3,330,481
Deferred loan costs	1,381,908	1,232,261
Goodwill and other intangibles (NOTE B)	38,538,413	42,004,050
Other	2,026,938	1,219,650
	41,947,259	47,786,442
	\$68,788,784	\$78,240,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$2,114,008	\$3,752,742
Employee compensation and benefits	3,150,154	4,213,639
Accrued expenses	512,483	560,877
Accrued interest	985,955	1,064,491
Current portion of program broadcast obligations	1,687,481	1,205,784
Current portion of long term debt	1,293,481	2,861,672
	9,743,562	13,659,205
Long-term debt (NOTE C)	51,646,265	51,462,645
Other long-term liabilities:		
Program broadcast obligations, less current portion	54,489	109,971
Supplemental employee benefits (NOTE D)	2,343,379	2,212,685
Deferred income taxes (NOTE F)	-0-	201,348
Other acquisition related liabilities (NOTES B AND C)	-0-	1,609,026
	2,397,868	4,133,030
Commitments and contingencies (NOTES B, C AND H)		
Stockholders' equity (NOTES B, C AND E)		
Class A Common Stock, no par value; authorized 10,000,000 shares; issued 4,841,785 and 5,082,756 shares, respectively	3,393,747	6,795,976
Retained earnings	8,245,626	8,827,906
	11,639,373	15,623,882
Treasury Stock, 663,180 shares, at cost	(6,638,284)	(6,638,284)
	5,001,089	8,985,598
	\$68,788,784	\$78,240,478

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Operating revenues:			
Broadcasting (less agency commissions)	\$15,003,752	\$22,826,392	\$36,750,035
Publishing	10,109,368	13,692,073	21,866,220
	25,113,120	36,518,465	58,616,255
Expenses:			
Broadcasting	10,028,837	14,864,011	23,201,990
Publishing	7,662,127	11,198,011	20,016,137
Corporate and administrative	2,326,691	1,958,449	2,258,261
Depreciation	1,387,698	1,745,293	2,633,360
Amortization of intangible assets	177,063	396,342	1,325,526
Non-cash compensation paid in common stock (NOTE D)	-0-	80,000	2,321,250
	21,582,416	30,242,106	51,756,524
Miscellaneous income and expense, net	3,530,704	6,276,359	6,859,731
	202,465	188,307	143,612
Interest expense	3,733,169	6,464,666	7,003,343
	984,706	1,922,965	5,438,374
Income from continuing operations before income taxes	2,748,463	4,541,701	1,564,969
Federal and state income taxes (NOTE F)	1,068,000	1,776,000	634,000
INCOME FROM CONTINUING OPERATIONS	1,680,463	2,765,701	930,969
Discontinued business (NOTE I):			
Income from operations of discontinued business, net of applicable income tax expense of \$30,000	48,174	-0-	-0-
Gain on disposal of discontinued business, net of applicable income tax expense of \$501,000	817,717	-0-	-0-
NET EARNINGS	\$2,546,354	\$2,765,701	\$930,969
Average outstanding common shares	4,610,625	4,689,453	4,481,317
Earnings per common share			
Continuing operations	\$.36	\$.59	\$.21
Discontinued operations	.01	-0-	-0-
Gain on disposal of discontinued operations	.18	-0-	-0-
NET EARNINGS PER COMMON SHARE	\$.55	\$.59	\$.21

See accompanying notes.

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

	CLASS A COMMON STOCK		RESTRICTED STOCK DEFERRALS	TREASURY STOCK		RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT		SHARES	AMOUNT		
Balance at December 31, 1992	4,610,625	\$1,307,071	\$-0-	-0-	\$-0-	\$3,542,901	\$4,849,972
Net income	-0-	-0-	-0-	-0-	-0-	2,546,354	2,546,354
Cash dividends (\$.07 per share)	-0-	-0-	-0-	-0-	-0-	(307,376)	(307,376)
Issuance of Common Stock-Directors Stock Plan (NOTE E)	3,000	29,000	-0-	-0-	-0-	-0-	29,000
Balance at December 31, 1993	4,613,625	1,336,071	-0-	-0-	-0-	5,781,879	7,117,950
Net income	-0-	-0-	-0-	-0-	-0-	2,765,701	2,765,701
Cash dividends (\$.07 share)	-0-	-0-	-0-	-0-	-0-	(301,954)	(301,954)
Purchase of Common Stock (NOTE E)	-0-	-0-	-0-	(663,180)	(6,638,284)	-0-	(6,638,284)
Issuance of Common Stock (NOTES B AND G):							
401(k) Plan	3,160	32,676	-0-	-0-	-0-	-0-	32,676
Rockdale Acquisition	225,000	2,025,000	-0-	-0-	-0-	-0-	2,025,000
Balance at December 31, 1994	4,841,785	3,393,747	-0-	(663,180)	(6,638,284)	8,245,626	5,001,089
Net income	-0-	-0-	-0-	-0-	-0-	930,969	930,969
Cash dividends (\$.08 share)	-0-	-0-	-0-	-0-	-0-	(348,689)	(348,689)
Issuance of Common Stock (NOTES B, D, E, AND G):							
401(k) Plan	18,354	298,725	-0-	-0-	-0-	-0-	298,725
Directors' Stock Plan	23,500	238,919	-0-	-0-	-0-	-0-	238,919
Non-qualified Stock Plan	5,000	48,335	-0-	-0-	-0-	-0-	48,335
Gwinnett Acquisition	44,117	500,000	-0-	-0-	-0-	-0-	500,000
Restricted Stock Plan	150,000	2,081,250	(2,081,250)	-0-	-0-	-0-	-0-
Amortization of Restricted Stock Plan deferrals	-0-	-0-	2,081,250	-0-	-0-	-0-	2,081,250
Income tax benefits relating to stock plans	-0-	235,000	-0-	-0-	-0-	-0-	235,000
Balance at December 31, 1995	5,082,756	\$6,795,976	\$-0-	(663,180)	\$(6,638,284)	\$8,827,906	\$8,985,598

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
OPERATING ACTIVITIES			
Net income	\$2,546,354	\$2,765,701	\$930,969
Items which did not use (provide) cash:			
Depreciation	1,612,040	1,745,293	2,633,360
Amortization of intangible assets	177,063	396,342	1,325,526
Amortization of program broadcast rights	924,878	1,217,976	1,647,035
Payments for program broadcast rights	(976,150)	(1,181,598)	(1,776,796)
Compensation paid in Common Stock	-0-	80,000	2,321,250
Supplemental employee benefits	(608,729)	(454,703)	(370,694)
Common Stock contributed to 401(k) Plan	-0-	32,676	298,725
Deferred income taxes	196,000	523,000	863,000
(Gain) loss on asset sales	(52,819)	(21,419)	1,652
Changes in operating assets and liabilities:			
Trade accounts receivable	(116,526)	(1,444,159)	(852,965)
Recoverable income taxes	(1,066,422)	589,942	(1,347,007)
Inventories	(92,526)	(179,930)	(181,034)
Other current assets	(352,174)	(24,361)	(11,208)
Trade accounts payable	701,556	(306,493)	1,441,745
Employee compensation and benefits	10,755	1,246,726	1,011,667
Accrued expenses	(163,458)	(45,335)	(414,087)
Accrued interest	(97,419)	858,164	78,536
Reduction in value of net assets of discontinued business	1,135,394	-0-	-0-
Gain on disposal of warehouse operations	(2,454,111)	-0-	-0-
Net cash provided by operating activities	1,323,706	5,797,822	7,599,674
INVESTING ACTIVITIES			
Acquisitions of newspaper businesses	-0-	(3,442,836)	(2,084,621)
Acquisition of television business	(1,505,655)	(37,492,643)	-0-
Purchases of property and equipment	(2,582,225)	(1,767,800)	(3,279,721)
Proceeds from asset sales	3,076,764	103,434	2,475
Deferred acquisition costs	-0-	-0-	(3,330,481)
Deferred loan costs	-0-	(1,251,287)	-0-
Proceeds from disposals of operating units	2,922,893	1,222,697	-0-
Other	1,150,104	(141,767)	(236,904)
Net cash provided by (used in) investing activities	3,061,881	(42,770,202)	(8,929,252)
FINANCING ACTIVITIES			
Proceeds from borrowings:			
Short-term debt	650,000	-0-	1,200,000
Long-term debt	-0-	55,826,260	2,950,000
Repayments of borrowings:			
Short-term debt	(170,000)	(480,000)	(1,200,000)
Long-term debt	(5,133,349)	(11,206,281)	(1,792,516)
Dividends paid	(307,376)	(301,954)	(348,689)
Common Stock transactions	29,000	(6,638,284)	522,254
Net cash provided by (used in) financing activities	(4,931,725)	37,199,741	1,331,049
Increase (decrease) in cash and cash equivalents	(546,138)	227,361	1,471
Cash and cash equivalents at beginning of year	877,297	331,159	558,520
Cash and cash equivalents at end of year	\$331,159	\$558,520	\$559,991

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

The Company's operations, which are located in six southeastern states, include six television stations, three daily newspapers, and six area weekly advertising only direct mail publications.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

REVENUE RECOGNITION

The Company recognizes revenues as services are performed.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on deposit with a bank. Deposits with the bank are generally insured in limited amounts.

INVENTORIES

Inventories, principally newsprint and supplies, are stated at the lower of cost or market. The Company uses the last-in, first-out ("LIFO") method of determining costs for substantially all of its inventories. Current cost exceeded the LIFO value of inventories by approximately \$36,000 and \$170,000 at December 31, 1994 and 1995, respectively.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast are initially recorded at the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use on the straight-line method. The portion of the unamortized balance expected to be charged to operating expense in the succeeding year is classified as a current asset, with the remainder classified as a non-current asset. The liability for program broadcast rights is classified as current or long-term, in accordance with the payment terms of the various licenses. The liability is not discounted for imputation of interest.

PROPERTY AND EQUIPMENT

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

INTANGIBLE ASSETS

Intangible assets are stated at cost, and with the exception of goodwill acquired prior to November 1, 1970 (approximately \$2.47 million at December 31, 1994 and 1995), are amortized using the straight-line method. Goodwill is amortized over 40 years. Loan acquisition fees are amortized over the life of the applicable indebtedness. Non-compete agreements are amortized over the life of the specific agreement. Accumulated amortization of intangible assets resulting from business acquisitions was \$0.4 million and \$1.7 million as of December 31, 1994 and 1995, respectively.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

INCOME TAXES

Deferred income taxes are provided on the differences between the financial statement and income tax basis of assets and liabilities. The Company and its subsidiaries file a consolidated federal income tax return and separate state and local tax returns.

CAPITAL STOCK

The Company has authorized 10 million shares of Class B Common Stock and 20 million shares of Preferred Stock, none of which have been issued at December 31, 1995. All references made to Common Stock in the December 31, 1995 Audited Consolidated Financial Statements of the Company and the Notes thereto refer to the Company's Class A Common Stock.

On August 17, 1995, the Board of Directors declared a 50% stock dividend on the Company's Common Stock payable October 2, 1995 to stockholders of record on September 8, 1995 to effect a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average common and common equivalent shares outstanding during the period determined using the treasury stock method. Common equivalent shares are attributable to a Common Stock award to be paid in 1999 and outstanding stock options (SEE NOTES D AND E).

STOCK OPTION PLAN

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

CONCENTRATION OF CREDIT RISK

The Company provides advertising air time to national, regional and local advertisers within the geographic areas in which the Company operates. Credit is extended based on an evaluation of the customer's financial condition, and generally advance payment is not required. Credit losses are provided for in the financial statements and consistently have been within management's expectations.

INTEREST SWAP

The Company has entered into an interest rate swap agreement to modify the interest characteristics of a portion of its outstanding debt (see Note C). The agreement involves the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt (the accrual accounting method). The related amount payable to or receivable from counter-parties is included in other liabilities or assets. The fair value of the swap agreement is not recognized in the financial statements. In the event of the early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the swap would be recognized in income coincident with the extinguishment.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The estimated fair value of long-term bank debt at December 31, 1995 approximated book value since, in management's opinion, such obligations are subject to fluctuating market rates of interest and can be settled at their face amounts. The fair value of the Senior Note at December 31, 1995 was estimated by management to be its carrying value at that date. The Company amended its Senior Note at January 4, 1996 and among other things, changed its effective interest rate. The Company does not anticipate settlement of long-term debt at other than book value.

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1995, the FASB issued Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF ("Statement 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. Statement 121 also addresses the accounting for long-lived assets which are expected to be disposed. The Company does not believe that the adoption of Statement 121 will have a material impact on the Company's financial position.

RECLASSIFICATIONS

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 1995 format.

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 consolidated financial statements as of their respective acquisition dates. The assets and liabilities of acquired businesses are included based on an allocation of the purchase price.

PENDING ACQUISITIONS

In December 1995, the Company agreed to acquire certain assets owned by John H. Phipps, Inc. ("Phipps"). The assets include WCTV-TV, the CBS network affiliate serving the Tallahassee, Florida and Thomasville, Georgia television market, WKXT-TV, the CBS network affiliate in Knoxville, Tennessee, and a communications and paging business located in three southeastern states. The purchase price is estimated at approximately \$185.0 million. The transaction, which is expected to close in 1996, is subject to approval by the appropriate regulatory agencies. If approved, the Company will be required to divest of certain of its broadcasting operations due to a signal overlap with WCTV, unless the rules of the Federal Communications Commission are modified to permit common ownership of television stations with overlapping signals.

The Company plans to fund the costs of this acquisition through the issuance of debt and equity securities. Additionally, the Company will amend or replace its existing bank credit facilities.

In connection with this acquisition, a bank has provided a \$10.0 million letter of credit to Phipps on behalf of the Company. The letter of credit will be payable under certain conditions if this acquisition is not

B. BUSINESS ACQUISITIONS (CONTINUED)

completed. In connection with the issuance of the letter of credit, a stockholder of the Company has executed a put agreement which the bank can exercise if the Company defaults on repayment of any amounts that might be paid in accordance with the terms of the letter of credit.

In connection with the proposed acquisition of assets owned by Phipps, the Company's Board of Directors has agreed to pay Bull Run Corporation ("Bull Run"), a stockholder, a finder's fee equal to 1% of the proposed purchase price for services performed, of which \$550,000 was due and included in accounts payable at December 31, 1995.

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 \$4.0 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 a preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately \$32.4 million. In connection with the Augusta Acquisition, the Company's Board of Directors approved the payment of a \$360,000 finders fee to Bull Run.

Funds for the Augusta Acquisition were obtained from the sale to Bull Run of an 8% subordinated note due January 3, 2005 in principal amount of \$10.0 million (the "Subordinated Note"). In connection with the sale of the Subordinated Note, the Company also issued warrants to Bull Run to purchase 487,500 shares of Common Stock at \$17.88 per share, 300,000 of which are currently vested, with the remaining warrants vesting in five equal installments commencing in 1997 provided that the Subordinated Note is outstanding. The warrants may not be exercised prior to January 3, 1998 and expire in January 2006. The Company modified its existing bank debt to a variable rate reducing revolving credit facility providing a credit line of \$55.0 million (see Note C). The outstanding credit facility balance subsequent to the Augusta Acquisition was approximately \$54.0 million; including \$28.4 million, which was outstanding under the credit facility at December 31, 1995, \$25.2 million used for the Augusta Acquisition, and \$425,000 used for the Company's working capital. The 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%.

An unaudited pro forma balance sheet as of December 31, 1995 and income statements for the years ended December 31, 1994 and 1995 are presented below giving effect to the Augusta Acquisition as though it had occurred on January 1, 1994.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS (CONTINUED)

Pro forma December 31, 1995 balance sheet (in 000's):

	GRAY	AUGUSTA ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
	UNAUDITED			
Current assets	\$13,437	\$3,061	\$(594)	\$15,904
Property and equipment	17,017	1,778	402	19,197
Goodwill and other intangibles	46,566	4,129	26,152	76,847
Other long-term assets	1,220	2,571	(2,518)	1,273
	\$78,240	\$11,539	\$23,442	\$113,221
Current liabilities	\$13,659	\$1,131	\$(41)	\$14,749
Long-term debt	51,462	-0-	33,729	85,191
Other long-term liabilities	4,133	2,680	(2,518)	4,295
Stockholders' equity	8,986	7,728	(7,728)	8,986
	\$78,240	\$11,539	\$23,442	\$113,221

These pro forma unaudited results of operations do not purport to represent what the Company's actual results of operations would have been if the Augusta Acquisition had occurred on January 1, 1994, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Subsequent adjustments are expected upon final determination of the allocation of the purchase price. Pro forma statement of operations for the year ended December 31, 1994 are as follows (in 000's, except per share data):

	GRAY	AUGUSTA ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
	UNAUDITED			
Revenues, net	\$36,518	\$8,046	\$255	\$44,819
Expenses	30,242	5,854	935	37,031
	6,276	2,192	(680)	7,788
Miscellaneous income (expense), net	189	(55)	90	224
Interest expense	1,923	-0-	3,156	5,079
	4,542	2,137	(3,746)	2,933
Income tax expense (benefit)	1,776	-0-	(603)	1,173
NET EARNINGS	\$2,766	\$2,137	\$(3,143)	\$1,760
Average shares outstanding	4,689			4,689
Earnings per share	\$.59			\$.38

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS (CONTINUED)

Pro forma statement of operations for the year ended December 31, 1995 are as follows (in 000's, except per share data):

	GRAY	AUGUSTA ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
	UNAUDITED			
Revenues, net	\$58,616	\$8,660	\$227	\$67,503
Expenses	51,756	6,198	944	58,898
	6,860	2,462	(717)	8,605
Miscellaneous income (expense), net	143	(220)	128	51
Interest expense	5,438	-0-	3,355	8,793
	1,565	2,242	(3,944)	(137)
Income tax expense (benefit)	634	-0-	(675)	(41)
NET EARNINGS (LOSS)	\$931	\$2,242	\$(3,269)	\$(96)
Average shares outstanding	4,481			4,354
Earnings (loss) per share	\$.21			\$(.02)

The pro forma results presented above include adjustments to reflect (i) the reclassification of national representative commissions as an expense consistent with the presentation of the Company, (ii) the incurrence of interest expense to fund the Augusta Acquisition, (iii) depreciation and amortization of assets acquired, and (iv) the income tax effect of such pro forma adjustments and income taxes on the earnings of the Augusta Acquisition. With respect to the Augusta Acquisition, the pro forma adjustments are based upon a preliminary allocation of the purchase price.

1995 ACQUISITIONS

On January 6, 1995, the Company purchased substantially all of the assets of The Gwinnett Post-Tribune and assumed certain liabilities (the "Gwinnett Acquisition"). The assets consisted of office equipment and publishing operations located in Lawrenceville, Georgia. The purchase price of approximately \$3.7 million, including assumed liabilities of approximately \$370,000, was paid by approximately \$1.2 million in cash (financed through long-term borrowings and cash from operations), issuance of 44,117 shares of the Company's Common Stock (having fair value of \$500,000), and \$1.5 million payable to the sellers pursuant to non-compete agreements. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$3.4 million. In connection with the Gwinnett Acquisition, the Company's Board of Directors approved the payment of a \$75,000 finders fee to Bull Run. Pro forma results of the Gwinnett Acquisition have not been presented as the effect on prior periods is not significant.

On September 1, 1995, the Company purchased substantially all of the assets of three area weekly advertising only direct mail publications, and assumed certain liabilities (the "Tallahassee Acquisition"). The tangible assets acquired consist of land and office buildings, office equipment, mechanical equipment and automobiles used in operations located in southwest Georgia and north Florida. The purchase price of approximately \$1.4 million consisted of \$833,000 in cash and approximately \$583,000 in assumed liabilities. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$934,000. Pro forma results giving effect to the Tallahassee Acquisition have not been presented as the effect on prior periods is not significant.

1994 ACQUISITIONS

On September 2, 1994, the Company purchased substantially all of the assets of Kentucky Central Television, Inc. ("Kentucky Central") and assumed certain of its liabilities (the "Kentucky Acquisition").

B. BUSINESS ACQUISITIONS (CONTINUED)

Kentucky Central operated two television stations, WKYT located in Lexington, Kentucky and WYMT located in Hazard, Kentucky, both of which are affiliates of the CBS television network. The purchase price of approximately \$38.1 million, excluding acquisition costs of approximately \$2.1 million and assumed liabilities of approximately \$2.3 million, was financed primarily through long-term borrowings. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$31.4 million.

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

On October 18, 1994, the Company purchased substantially all of the assets of four area weekly advertising only direct mail publications and assumed certain of their liabilities. The assets consist of land and an office building, office equipment, automobiles, and publishing operations located in southwest Georgia. The purchase price of approximately \$1.5 million consisted of a \$545,000 cash payment and approximately \$1.0 million financed by the sellers. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$1.2 million. Pro forma results giving effect to this acquisition have not been presented below as the effect on prior periods is not significant.

Unaudited pro forma statements of income from continuing operations for the years ended December 31, 1993 and 1994, are presented below, giving effect to the Rockdale Acquisition and the Kentucky Acquisition (collectively the "1994 Acquisitions") as though they had occurred on January 1, 1993.

These pro forma unaudited results of operations do not purport to represent what the Company's actual results of operations would have been if the 1994 Acquisitions had occurred on January 1, 1993, and should

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS (CONTINUED)

not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based upon certain assumptions that management believes are reasonable under the circumstances. The unaudited pro forma results of continuing operations are as follows (in 000's, except per share data):

	YEAR ENDED DECEMBER 31, 1993				ADJUSTED PRO FORMA
	GRAY	KENTUCKY ACQUISITION	ROCKDALE ACQUISITION	PRO FORMA ADJUSTMENTS	
	(UNAUDITED)				
Operating revenues	\$25,113	\$14,526	\$2,660	\$-0-	\$42,299
Operating expenses	21,582	10,827	2,646	877	35,932
Operating income	3,531	3,699	14	(877)	6,367
Miscellaneous income, net	202	219	-0-	-0-	421
Interest expense	3,733 985	3,918 4	14 9	(877) 3,187	6,788 4,185
Income from continuing operations before income taxes	2,748	3,914	5	(4,064)	2,603
Income tax expense (benefit)	1,068	1,326	-0-	(1,405)	989
Income from continuing operations	\$1,680	\$2,588	\$5	\$2,659	\$1,614
Average shares outstanding	4,611				4,836
Earnings per common share from continuing operations	\$.36				\$.33

	YEAR ENDED DECEMBER 31, 1994				ADJUSTED PRO FORMA
	GRAY	KENTUCKY ACQUISITION	ROCKDALE ACQUISITION	PRO FORMA ADJUSTMENTS	
	(UNAUDITED)				
Operating revenues	\$36,518	\$10,237	\$980	\$-0-	\$47,735
Operating expenses	30,242	7,382	930	559	39,113
Operating income	6,276	2,855	50	(559)	8,622
Miscellaneous income, net	189	19	-0-	-0-	208
Interest expense	6,465 1,923	2,874 -0-	50 4	(559) 2,412	8,830 4,339
Income from continuing operations before income taxes	4,542	2,874	46	(2,971)	4,491
Income tax expense (benefit)	1,776	237	-0-	(208)	1,805
Net income from continuing operations	\$2,766	\$2,637	\$46	\$(2,763)	\$2,686
Average shares outstanding	4,689				4,780
Earnings per common share from continuing operations	\$.59				\$.56

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the 1994 Acquisitions, (ii) depreciation and amortization of assets acquired, and (iii) the

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS (CONTINUED)

income tax effect of such pro forma adjustments. Average outstanding shares used to calculate earnings per share from continuing operations for 1994 and 1993 include the 225,000 shares issued in connection with the Rockdale Acquisition.

C. LONG-TERM DEBT

Long-term debt consists of the following (in 000's):

	DECEMBER 31,	
	1994	1995
Senior Note	\$25,000	\$25,000
Bank Loan	26,926	28,375
Other	1,013	950
	52,939	54,325
Less current portion	(1,293)	(2,862)
	\$51,646	\$51,463

On September 2, 1994, the Company issued through a private placement with an institutional investor, a \$25.0 million 9.33% note (the "Senior Note"). The Senior Note provides for semi-annual principal payments of \$2.5 million beginning March 1999. Interest is payable semi-annually in arrears and the Senior Note, as amended on January 4, 1996, bears interest at 10.7% (see Note B). The agreement pursuant to which the Senior Note was issued contains certain restrictive provisions, which, among other things, limit capital expenditures and additional indebtedness, and require minimum levels of net worth and cash flows.

On September 2, 1994, the Company entered into a bank term loan agreement (the "Bank Loan") which provided for borrowings of approximately \$21.4 million. On November 30, 1994, the Bank Loan was amended to provide for additional borrowings of \$6.7 million which were used to purchase 663,180 shares of the Company's Common Stock (SEE NOTE E). The Bank Loan, as amended on January 4, 1996, bears interest, at the Company's option, at a spread over LIBOR, or at a spread over the bank's prime rate (8.96% at January 4, 1996) (see Note B). The Bank Loan is due in varying, quarterly principal payments of \$750,000 to \$2.0 million through September 2002 with two quarterly installments of \$7 million payable starting December 2002. The Bank Loan provides for an annual loan prepayment based on the Company's cash flow as defined by the Bank Loan. Additionally, the effective interest rate of the Bank Loan can be changed based upon the Company's maintenance of certain operating ratios as defined by the Bank Loan, not to exceed the bank's prime rate plus 1.25% or LIBOR plus 3.5%. The Bank Loan contains restrictive provisions similar to the provisions of the Senior Note.

The Senior Note and the Bank Loan are secured by substantially all of the Company's existing and hereafter acquired assets.

The Company entered into a five year interest rate swap agreement on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. Approximately \$25.0 million of the Company's outstanding debt under the Bank Loan was subject to this interest rate swap agreement at December 31, 1995. The effective rate of the Bank Loan and interest rate swap at December 31, 1995, was approximately 8.64% and 9.10%, respectively. The unrealized loss for the interest rate swap was approximately \$565,000 at December 31, 1995, based upon comparison to treasury bond yields for bonds with similar maturity dates as the interest rate swap.

At December 31, 1995, retained earnings of approximately \$500,000 were available for dividends.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

C. LONG-TERM DEBT (CONTINUED)

Aggregate minimum principal maturities on long-term debt as of December 31, 1995, were as follows (in 000's):

1996	\$2,862
1997	5,039
1998	6,634
1999	12,615
2000	11,303
Thereafter	15,872

	\$54,325

The Company made interest payments of approximately \$902,000, \$1.2 million, and \$5.4 million during 1993, 1994 and 1995, respectively.

D. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS

The Company has an employment agreement with its President which provides him 122,034 shares of the Company's Common Stock if his employment with the Company continues until September 1999. The Company will recognize approximately \$1.2 million of compensation expense for this award over the five year period ending in 1999 (\$80,000 and \$240,000 of expense was recorded in 1994 and 1995, respectively).

In December 1995, the Company amended an existing employment agreement to pay consulting fees to its former chief executive officer. The Company has recorded approximately \$596,000 of corporate and administrative expenses during the year ended December 31, 1995 in accordance with the terms of the employment agreement. Additionally, in December 1995 the Company issued 150,000 shares of Common Stock to this former chief executive officer in accordance with his employment agreement which was amended to remove certain restrictions, including, among others, a time requirement for continued employment. Compensation expense of approximately \$2.1 million (including \$865,000 during the quarter ended December 31, 1995), was recognized in 1995 for the 150,000 shares of Common Stock issued pursuant to this agreement.

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

GRAY COMMUNICATIONS SYSTEMS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

D. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS (CONTINUED)

The following summarizes activity relative to certain officers' agreements and the supplemental employee benefits (in 000's):

	DECEMBER 31,		
	1993	1994	1995
Beginning liability	\$3,495	\$2,960	\$2,518
Provision	166	184	976
Forfeitures	(399)	(266)	(169)
Net (income) expense	(233)	(82)	807
Payments	(302)	(360)	(387)
Net change	(535)	(442)	420
Ending liability	2,960	2,518	2,938
Less current portion	(162)	(175)	(725)
	\$2,798	\$2,343	\$2,213

E. STOCKHOLDERS' EQUITY

The Company has a Stock Purchase Plan which allows outside directors to purchase up to 7,500 shares of the Company's Common Stock directly from the Company before the end of January following each calendar year. The purchase price per share approximates the market price of the Common Stock at the time of the grant. During 1993, 1994 and 1995, certain directors purchased an aggregate of 3,000, -0- and 23,500 shares of Common Stock, respectively, under this plan.

The Company has a long-term incentive plan (the "Incentive Plan") under which 600,000 shares of the Company's Common Stock are reserved for grants to key personnel for (i) incentive stock options, (ii) non-qualified stock options, (iii) stock appreciation rights, (iv) restricted stock and (v) performance awards, as defined by the Incentive Plan. Stock underlying outstanding options or performance awards are counted against the Incentive Plan's maximum shares while such options or awards are outstanding. Under the Incentive Plan, the options granted vest after a two year period and expire three years after full vesting. Options granted through December 31, 1995, have been granted at a price which approximates fair market value on the date of the grant.

	EXERCISE PRICE PER SHARE	
	\$9.67	\$13.33
Stock options granted on November 18, 1993	92,250	-0-
Forfeitures	(3,000)	-0-
Stock options outstanding at		
December 31, 1993	89,250	-0-
Options granted	73,559	-0-
Forfeitures	(16,500)	-0-
Stock options outstanding at		
December 31, 1994	146,309	-0-
Options granted	-0-	58,050
Options exercised	(5,000)	-0-
Forfeitures	(14,250)	(3,900)
Stock options outstanding at December 31, 1995	127,059	54,150

At December 31, 1995, 56,500 of the \$9.67 options issued in 1993 were exercisable.

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

F. INCOME TAXES

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

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

F. INCOME TAXES (CONTINUED)

Federal and state income tax expense (benefit) included in the consolidated financial statements are summarized as follows (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Current			
Federal	\$982	\$1,093	\$(253)
State	181	160	24
Deferred	436	523	863
	\$1,599	\$1,776	\$634

The total provision for income taxes for 1993 included \$531,000 for discontinued operations.

The components of deferred income tax expense for federal and state and local income taxes resulted from the following (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Accelerated depreciation for tax purposes	\$50	\$19	\$349
Accelerated amortization for tax purposes	-0-	164	726
Employee benefits and other agreements	181	96	(150)
Temporary difference related to loss on sales of assets	174	248	-0-
Excess of book over tax deductions for lease	7	91	-0-
Other	24	(95)	(62)
	\$436	\$523	\$863

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

F. INCOME TAXES (CONTINUED)

Significant components of the Company's deferred tax liabilities and assets are as follows (in 000's):

	DECEMBER 31,		
	1993	1994	1995
Deferred tax liabilities:			
Net book value of property and equipment	\$704	\$723	\$1,069
Goodwill	-0-	164	890
Other	120	120	120
Total deferred tax liabilities	824	1,007	2,079
Deferred tax assets:			
Liability under supplemental retirement plan	1,125	1,029	1,127
Allowance for doubtful accounts	168	335	195
Difference in basis of assets held for sale	1,189	941	941
Other	135	117	368
Total deferred tax assets	2,617	2,422	2,631
Valuation allowance for deferred tax assets	(753)	(753)	(753)
Net deferred tax assets	1,864	1,669	1,878
Deferred tax assets (liabilities)	\$1,040	\$662	\$(201)

A reconciliation of income tax expense at the statutory federal income tax rate and income taxes as reflected in the consolidated financial statements is as follows (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Statutory rate applied to income	\$1,409	\$1,544	\$532
State and local taxes, net of federal tax benefits	164	195	91
Other items, net	26	37	11
	\$1,599	\$1,776	\$634

The Company made income tax payments of approximately \$2.1 million, \$1.5 million and \$742,000 during 1993, 1994 and 1995, respectively. At December 31, 1995, the Company had current recoverable income taxes of approximately \$1.3 million.

G. RETIREMENT PLANS

PENSION PLAN

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

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

G. RETIREMENT PLANS (CONTINUED)

The net pension expense includes the following (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Service costs-benefits earned during the year	\$224	\$204	\$221
Interest cost on projected benefit obligation	374	359	384
Actual return on plan assets	(377)	(91)	(655)
Net amortization and deferral	(63)	(338)	187
Net pension expense	\$158	\$134	\$137
Assumptions:			
Discount rate	8.0%	7.0%	8.0%
Expected long-term rate of return on assets	8.0%	7.0%	8.0%
Estimated rate of increase in compensation levels	6.0%	5.0%	6.0%

The following summarizes the plan's funded status and related assumptions (in 000's):

	DECEMBER 31,	
	1994	1995
Actuarial present value of accumulated benefit obligation is as follows:		
Vested	\$4,452	\$5,308
Other	66	135
	\$4,518	\$5,443
Plan assets at fair value, primarily mutual funds and an unallocated insurance contract	\$5,307	\$5,680
Projected benefit obligation	(5,015)	(5,904)
Plan assets in excess of (less than) projected benefit obligation	292	(224)
Unrecognized net (gain) loss	(135)	190
Unrecognized net asset	(409)	(355)
Pension liability included in consolidated balance sheet	\$(252)	\$(389)
Assumptions:		
Discount rate	8.0%	7.0%
Estimated rate of increase in compensation levels	6.0%	5.0%

Effective December 31, 1995, the Company changed certain assumptions utilized in the actuarially computed costs and liabilities. The effect of such changes was to increase the present value of the projected benefit obligations by approximately \$613,000.

CAPITAL ACCUMULATION PLAN

Effective October 1, 1994, the Company adopted the Gray Communications Systems, Inc. Capital Accumulation Plan (the "Capital Accumulation Plan") for the purpose of providing additional retirement benefits for substantially all employees. The Capital Accumulation Plan is intended to meet the requirements of section 401(k) of the Internal Revenue Code.

G. RETIREMENT PLANS (CONTINUED)

Employee contributions to the Capital Accumulation Plan, not to exceed 6% of the employees' gross pay, are matched by Company contributions. The Company's percentage match is made by a contribution of the Company's Common Stock, in an amount declared by the Company's Board of Directors before the beginning of each plan year. The Company's percentage match was 50% for both the year ended December 31, 1995 and the three months ended December 31, 1994. The Company contributions vest, based upon each employee's number of years of service, over a period not to exceed five years. The Company has reserved 150,000 shares of its Common Stock for issuance under the Capital Accumulation Plan.

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

H. COMMITMENTS AND CONTINGENCIES

The Company has various operating lease commitments for equipment, land and office space which expire through the year 2027. Future minimum payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year are not material.

The Company has entered into commitments for various television film exhibition rights for which the license periods have not yet commenced. Obligations under these commitments are payable in the following years:

1996	\$491,360
1997	1,431,983
1998	1,351,273
1999	1,133,860
2000	456,733

	\$4,865,209

The Company is subject to legal proceedings and claims which arise in the normal course of its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the Company's financial position.

I. DISCONTINUED OPERATIONS

On April 13, 1994, the Company completed the sale of the assets of Gray Air Service (an operation discontinued in 1993) for approximately \$1.2 million, and used the proceeds to reduce the Company's outstanding debt. During the year ended December 31, 1993, the Company sold its investment in undeveloped farmland, another asset held for sale, for approximately \$2.0 million.

On March 31, 1993, the Company completed the sale of its warehouse operations to Gray Distribution Services, Inc., a Georgia corporation, owned by a former director and officer of the Company. The net sales price of approximately \$2.9 million was paid in cash at the date of closing. The Company recognized a gain of approximately \$1.5 million, net of income tax expense of approximately \$932,000, relative to the disposal of the warehouse operations. A special independent committee of the Company's Board of Directors approved the terms and conditions of the sale.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

I. DISCONTINUED OPERATIONS (CONTINUED)

The following summarizes information relative to the discontinued business segment for the year ended December 31, 1993 (in 000's):

Operating revenues	\$1,695	-----
Operating earnings	\$100	-----
Net earnings	\$48	-----

J. INFORMATION ON BUSINESS SEGMENTS

The Company operates in two business segments: broadcasting and publishing. A transportation segment was discontinued in 1993 (see Note I). The broadcasting segment operates five television stations at December 31, 1995. The Publishing segment operates three daily newspapers in three different markets, and six area weekly advertising only direct mail publications in southwest Georgia and north Florida. The following tables present certain financial information concerning the Company's two operating segments and its discontinued segment (in 000's).

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
OPERATING REVENUE			
Broadcasting	\$15,004	\$22,826	\$36,750
Publishing	10,109	13,692	21,866
	\$25,113	\$36,518	\$58,616
OPERATING PROFIT (LOSS) FROM CONTINUING OPERATIONS			
Broadcasting	\$2,491	\$5,241	\$7,822
Publishing	1,040	1,036	(962)
Total operating profit from continuing operations	3,531	6,277	6,860
Miscellaneous income and expense, net	202	188	144
Interest expense	(985)	(1,923)	(5,439)
Income from continuing operations before income taxes	\$2,748	\$4,542	\$1,565

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

J. INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

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

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
DEPRECIATION AND AMORTIZATION EXPENSE			
Broadcasting	\$904	\$1,326	\$2,723
Publishing	438	690	1,190
	1,342	2,016	3,913
Corporate	223	126	46
	1,565	2,142	3,959
Discontinued operations	224	-0-	-0-
Total depreciation and amortization expense	\$1,789	\$2,142	\$3,959
CAPITAL EXPENDITURES			
Broadcasting	\$787	\$1,330	\$2,285
Publishing	755	366	973
	1,542	1,696	3,258
Corporate	124	72	22
	1,666	1,768	3,280
Discontinued operations	916	-0-	-0-
Total capital expenditures	\$2,582	\$1,768	\$3,280

	DECEMBER 31,		
	1993	1994	1995
IDENTIFIABLE ASSETS			
Broadcasting	\$9,984	\$53,173	\$54,022
Publishing	4,753	11,878	18,170
	14,737	65,051	72,192
Corporate	5,699	3,738	6,048
	20,436	68,789	78,240
Discontinued operations	936	-0-	-0-
Total identifiable assets	\$21,372	\$68,789	\$78,240

REPORT OF INDEPENDENT AUDITORS

Partners of Television Station Partners, L.P.

We have audited the accompanying balance sheet of WRDW-TV, an operating station of Television Station Partners, L.P., as of December 31, 1995, and the related statements of income, partnership's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WRDW-TV at December 31, 1995, and the results of its operations and its cash flows for the year then ended in conformity with the generally accepted accounting principles.

ERNST & YOUNG LLP

Atlanta, Georgia
January 26, 1996

WRDW-TV
(THE AUGUSTA BUSINESS)
BALANCE SHEETS
DECEMBER 31, 1995

ASSETS

Current assets:

Cash	\$333,658
Accounts receivable, net of allowance for doubtful accounts of approximately \$117,380	1,748,208
Television film exhibition rights	924,107
Prepaid and other current assets	55,342

Total current assets	3,061,315
Property, buildings and equipment-net (NOTE 3):	1,778,429
Television film exhibition rights	2,570,850
Intangible assets-net	4,128,730

Total	\$11,539,324

LIABILITIES AND PARTNERSHIP'S EQUITY

Current liabilities:

Accounts payable and accrued expenses (NOTE 4)	\$233,197
Obligations for television film exhibition rights	898,251

Total current liabilities	1,131,448
Obligations for television film exhibition rights	2,680,267
Commitments and contingencies (NOTE 5)	
Partnership's equity (NOTES 1 AND 7)	7,727,609

Total	\$11,539,324

SEE ACCOMPANYING NOTES.

WRDW-TV
 (THE AUGUSTA BUSINESS)
 STATEMENT OF INCOME
 YEAR ENDED DECEMBER 31, 1995

REVENUES:	
Broadcasting revenues	\$10,059,555
Less:	
Advertising agency commissions	1,171,595
National sales representative commissions	227,368

Total advertising agency and national sales representative commissions	1,398,963

Net operating revenues	8,660,592

OPERATING EXPENSES:	
Operating, technical and programming costs	3,142,280
Selling, general and administrative	2,631,952

Total operating expenses	5,774,232

 INCOME BEFORE OTHER EXPENSES	 2,886,360

 OTHER EXPENSES:	
Depreciation	272,298
Amortization of intangible assets	151,620
Other-expenses, net	220,211

Total	644,129

Net income	\$2,242,231

SEE ACCOMPANYING NOTES.

WRDW-TV
(THE AUGUSTA BUSINESS)
STATEMENT OF PARTNERSHIP'S EQUITY
YEAR ENDED DECEMBER 31, 1995

Balance at December 31, 1994	\$7,410,422
Net income	2,242,231
Distribution to Television Station Partners, L.P.	(1,925,044)

Balance at December 31, 1995	\$7,727,609

SEE ACCOMPANYING NOTES.

WRDW-TV
 (THE AUGUSTA BUSINESS)
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 1995

CASH FLOW FROM OPERATING ACTIVITIES	
Net income	\$2,242,231
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,359,415
Provision for bad debt (recoveries)	(14,000)
Net trade barter revenue	(59,356)
Gain on sale of property and equipment	(12,868)
Changes in operating assets and liabilities:	
Accounts receivable	(60,155)
Prepaid and other assets	102,937
Accounts payable and accrued expenses	(359,296)
Payments of obligations for television film exhibition rights	(1,017,754)
Other	274,956

Net cash provided by operating activities	2,456,110
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	12,868
Capital expenditures	(121,987)

Net cash used in investing activities	(109,119)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash transferred to Partnership	(2,200,000)

Net cash used in financing activities	(2,200,000)
NET INCREASE IN CASH	146,991
CASH AT BEGINNING OF YEAR	186,667

CASH AT END OF YEAR	\$333,658

SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING, INVESTING AND FINANCIAL ACTIVITIES

Television film exhibition obligations were incurred when the Station entered into contracts for film exhibition rights totaling:	\$387,450

Property and equipment was acquired in exchange for advertising time totaling:	\$59,356

SEE ACCOMPANYING NOTES.

WRDW-TV
(THE AUGUSTA BUSINESS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

1. STATION ORGANIZATION AND BASIS OF PRESENTATION

WRDW-TV (the "Station") is a commercial television station located in North Augusta, South Carolina. The Station was owned and operated by Television Station Partners, L.P. (the "Partnership") from July 7, 1989 to January 4, 1996-See Note 8. The Partnership is a Delaware limited partnership which was organized on May 24, 1989 for the sole purpose of acquiring, owning, operating and, at such time as GP Station Partners (the "general partner" of the Partnership) determines is appropriate, reselling or otherwise disposing of its television stations.

The Station was acquired by the Partnership on July 7, 1989 pursuant to an Exchange Agreement dated May 24, 1989 between the Partnership and Television Station Partners, a New York partnership ("TSP"). The Exchange Agreement provided for the transfer to the partnership of all of TSP's assets in exchange for all of the units of partnership interest in the Partnership, followed by the liquidation and distribution of those units to the partners of TSP. For tax and accounting purposes, the Partnership has been treated as a continuation of TSP. The Station had been operated by TSP since March 23, 1983.

The financial statements of the Station are prepared on the accrual basis of accounting, and include only those assets, liabilities, and results of operations that relate to the business of the Station.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TELEVISION FILM EXHIBITION RIGHTS

Television film exhibition rights are recorded at the amount of the license fees payable when purchased and amortized using the straight-line method based on the license period or usage, whichever yields the greater accumulated amortization. Television film exhibition rights are classified based upon the portion of the unamortized balance expected to be broadcast within the current year.

PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment is stated at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the assets. Any gains or losses realized on disposition are reflected in operations. Maintenance and repairs, as well as minor renewals and betterments, are charged to operating expenses directly as incurred.

INTANGIBLE ASSETS

Intangible assets are comprised principally of Federal Communications Commission licenses and network affiliation agreements and are amortized on the straight-line basis, primarily over 40 years. Intangible assets are periodically evaluated for impairments using a measurement of fair value, calculated at the current market multiple times operating income. If this review indicates that the intangible assets will not be recoverable, the Company's carrying value of the intangible assets would be reduced to its estimated fair value.

TRADE/BARTER TRANSACTIONS

Trade/barter transactions involve the exchange of advertising time for products and/or services and are recorded based on the fair market value of the products and/or services received. Revenue is recorded when advertising schedules air, and expense is recognized when products and/or services are used.

WRDW-TV
 (THE AUGUSTA BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1995

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
 INCOME TAXES

No income tax provision has been included in the financial statements since income or loss of the Station is required to be reported by the partners of the Partnership on their respective income tax returns.

3. PROPERTY, BUILDINGS, AND EQUIPMENT

The major classes of property, buildings and equipment at December 31, 1995 are as follows:

Land	\$190,000
Buildings and tower	2,062,613
Automobiles	136,245
Furniture and fixtures	5,999,846
Machinery and equipment	1,769,175

	10,157,879
Less accumulated depreciation	8,379,450

	\$1,778,429

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 1995 consist of the following:

Accounts payable	\$10,275
Accrued state taxes	9,096
Accrued payroll, commissions, and bonuses	152,201
Other accrued expenses	61,625

	\$233,197

5. COMMITMENTS AND CONTINGENCIES

FILM EXHIBITION RIGHTS

The obligations for television film exhibition rights are payable in the following years:

YEAR ENDING DECEMBER 31	AMOUNT

1996	\$898,251
1997	875,838
1998	838,254
1999	672,724
2000	293,451

	\$3,578,518

LITIGATION

The Station is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial statements of the Station.

WRDW-TV
(THE AUGUSTA BUSINESS)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1995

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)
DEBT

The Partnership had indebtedness outstanding under an Amended and Restated Credit Agreement (the "Agreement"). The Agreement is secured by a first lien on substantially all the assets of the Partnership. The Agreement required the Partnership to enter into one or more binding sales contracts for the assets of each station, satisfactory to the Banks, on or before June 30, 1995. During the latter part of 1994, the Partnership contracted the services of Media Venture Partners for the purpose of marketing the stations. On January 4, 1996, the Partnership sold the assets of the Station. (Note 8).

6. TRANSACTIONS WITH RELATED PARTIES

The Partnership pays various operating and non-operation expenses on behalf of the Station. These expenses have been allocated for the year ended December 31, 1995. The Station is allocated a portion of management fees and expenses in the amount of approximately \$90,000 to RP Television for financial support services such as accounting. Additionally, the Station transfers excess cash to the Partnership's headquarters. Excess cash transferred was \$2,200,000 for the year ended December 31, 1995. This money is primarily used for principal and interest payments on the Partnership's debt obligations.

7. PENSION PLAN

Effective January 1, 1993, the defined contribution pension plan was converted to a 401(k) salaried deferral plan, covering substantially all employees, with a Partnership profit sharing contribution of 3 1/2 percent of the participants' salary per annum. Annual contributions aggregating approximately \$53,803 were made to the Plan during 1995.

8. SUBSEQUENT EVENT

On January 4, 1996, the Partnership sold the assets of WRDW-TV to Gray Communication Systems, Inc., for approximately \$34 million plus an amount equal to the excess of the current assets over the current liabilities assumed by the buyer, as defined in the Asset Purchase Agreement.

INDEPENDENT AUDITORS' REPORT

To the Partners' of
Television Station Partners, L.P.:

We have audited the accompanying balance sheets of WRDW-TV (an operating station of Television Station Partners, L.P.), (the "Station") as of December 31, 1994 and the related statements of income, partnership's equity, and cash flows for the years ended December 31, 1993 and 1994. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Station as of December 31, 1994 and the results of their operations and their cash flows for the years ended December 31, 1993 and 1994 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
New York, New York
May 12, 1995

WRDW-TV
 (AN OPERATING STATION OF TELEVISION STATION PARTNERS, L.P.)
 BALANCE SHEET
 DECEMBER 31, 1994

	1994

ASSETS	
CURRENT ASSETS:	
Cash	\$186,667
Accounts receivable, net of allowance for doubtful accounts of approximately \$131,000	1,674,053
Television film exhibition rights	874,495
Prepaid and other current assets	158,279

Total current assets	2,893,494
PROPERTY, BUILDINGS AND EQUIPMENT-Net (NOTE 3):	1,869,384
TELEVISION FILM EXHIBITION RIGHTS	3,168,509
INTANGIBLE ASSETS-Net	4,280,350

TOTAL	\$12,211,737

LIABILITIES AND PARTNERSHIP'S EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses (NOTE 4)	\$592,493
Obligations for television film exhibition rights (NOTE 5)	908,652

Total current liabilities	1,501,145
OBLIGATIONS FOR TELEVISION FILM EXHIBITION RIGHTS (NOTE 5)	3,300,170
COMMITMENTS AND CONTINGENCIES (NOTE 6)	
PARTNERSHIP'S EQUITY (NOTES 1 AND 8)	7,410,422

Total	\$12,211,737

SEE NOTES TO FINANCIAL STATEMENTS.

WRDW-TV
 (AN OPERATING STATION OF TELEVISION STATION PARTNERS, L.P.)
 STATEMENTS OF INCOME
 YEARS ENDED DECEMBER 31, 1993 AND 1994

	1993	1994
	-----	-----
REVENUES:		
Broadcasting revenues	\$7,933,825	\$9,460,307
Less:		
Advertising agency commissions	943,174	1,158,952
National sales representative commissions	194,516	255,379
	-----	-----
Total advertising agency and national sales representative commissions	1,137,690	1,414,331
	-----	-----
Net operating revenues	6,796,135	8,045,976
	-----	-----
OPERATING EXPENSES:		
Operating, technical and programming costs	2,555,795	2,958,364
Selling, general and administrative	2,126,770	2,434,477
	-----	-----
Total operating expenses	4,682,565	5,392,841
	-----	-----
INCOME BEFORE OTHER EXPENSES	2,113,570	2,653,135
	-----	-----
OTHER EXPENSES:		
Depreciation	290,730	309,949
Amortization of intangible assets	151,620	151,620
Other-expenses, net	77,408	54,570
	-----	-----
Total	519,758	516,139
	-----	-----
NET INCOME	\$1,593,812	\$2,136,996
	-----	-----

SEE NOTES TO FINANCIAL STATEMENTS.

WRDW-TV
 (AN OPERATING STATION OF TELEVISION STATION PARTNERS, L.P.)
 STATEMENTS OF PARTNERSHIP'S EQUITY
 YEARS ENDED DECEMBER 31, 1993 AND 1994

	PARTNERSHIP'S EQUITY

BALANCE, JANUARY 1, 1993	\$7,829,582
Net income	1,593,812
Transfer to Television Station Partners, L.P.	(1,909,588)

BALANCE, DECEMBER 31, 1993	7,513,806
Net income	2,136,996
Transfer to Television Station Partners, L.P.	(2,240,380)

BALANCE, DECEMBER 31, 1994	\$7,410,422

SEE NOTES TO FINANCIAL STATEMENTS.

WRDW-TV
(AN OPERATING STATION OF TELEVISION STATION PARTNERS, L.P.)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1993 AND 1994

	1993	1994
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$1,593,812	\$2,136,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,355,485	1,345,658
Provision for bad debt	24,800	62,000
Net trade barter revenue	(15,850)	(30,105)
Gain on sale of property and equipment	(1,137)	(400)
Changes in operating assets and liabilities:		
Accounts receivable	(413,414)	(173,216)
Prepaid and other assets	(51,535)	(34,480)
Accounts payable and accrued expenses	155,264	2,443
Payments of obligations for television film exhibition rights	(2,645,344)	(3,048,878)
	-----	-----
Net cash provided by operating activities	2,081	260,018
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	9,470	400
Capital expenditures	(230,718)	(176,374)
	-----	-----
Net cash used in investing activities	(221,248)	(175,974)
	-----	-----
NET INCREASE (DECREASE) IN CASH	(219,167)	84,044
CASH, BEGINNING OF YEAR	321,790	102,623
	-----	-----
CASH, END OF YEAR	\$102,623	\$186,667
	-----	-----
SUPPLEMENTAL INFORMATION:		
Cash transferred to Television Station Partners, L.P.	\$2,075,000	\$2,417,500
	-----	-----

SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING, INVESTING AND FINANCIAL ACTIVITIES:
Television film exhibition obligations of \$1,969,210 and 3,112,615 in 1993 and 1994, respectively, were incurred when the Station entered into contracts for film exhibition rights.
Property and equipment totaling \$15,850 and \$30,105 was acquired in 1993 and 1994, respectively, in exchange for advertising time.

SEE NOTES TO FINANCIAL STATEMENTS.

1. STATION ORGANIZATION AND BASIS OF PRESENTATION

WRDW-TV (the "Station") is a commercial television station located in North Augusta, South Carolina. The Station is owned and operated by Television Station Partners, L.P. (the "Partnership") since July 7, 1989, as one of four commercial television stations owned by the Partnership. The Partnership is a Delaware limited partnership which was organized on May 24, 1989 for the sole purpose of acquiring, owning, operating and, at such time as GP Station Partners (the "general partner" of the Partnership) determines is appropriate, reselling or otherwise disposing of its television stations.

The Station was acquired by the Partnership on July 7, 1989 pursuant to an Exchange Agreement dated May 24, 1989 between the Partnership and Television Station Partners, a New York partnership ("TSP"). The Exchange Agreement provided for the transfer to the partnership of all of TSP's assets in exchange for all of the units of partnership interest in the Partnership, followed by the liquidation and distribution of those units to the partners of TSP. For tax and accounting purposes, the Partnership has been treated as a continuation of TSP. The Station has been operated by TSP since March 23, 1983.

The financial statements of the Station are prepared on the accrual basis of accounting, and include only those assets, liabilities, and results of operations that relate to the business of the Station.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TELEVISION FILM EXHIBITION RIGHTS -- Television film exhibition rights relating to films which are currently available for telecasting are recorded at the gross cost method when purchased and amortized using the straight-line method over the greater of the license period or usage. Television film exhibition rights are classified based upon the portion of the unamortized balance expected to be broadcast within the current year.

PROPERTY, BUILDINGS AND EQUIPMENT -- Property, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the assets. Any gains or losses realized on disposition are reflected in operations. Maintenance and repairs, as well as minor renewals and betterments, are charged to operating expenses directly as incurred.

INTANGIBLE ASSETS -- Intangible assets are comprised principally of Federal Communications Commission licenses and network affiliation agreements and are amortized on the straight-line basis, primarily over 40 years. Intangible assets are periodically evaluated for impairments using a measurement of fair value, calculated at the current market multiple times operating income. The current market value multiple used at December 31, 1994 was 8.5 times.

TRADE/BARTER TRANSACTIONS -- Trade/barter transactions involve the exchange of advertising time for products and/or services and are recorded based on the fair market value of the products and/or services received. Revenue is recorded when advertising schedules air, and expense is recognized when products and/or services are used.

INCOME TAXES -- No income tax provision has been included in the financial statements since income or loss of the Station is required to be reported by the partners of the Partnership on their respective income tax returns.

3. PROPERTY, BUILDINGS AND EQUIPMENT

The major classes of property, buildings and equipment are as follows:

	DECEMBER 31, 1994
Land	\$190,000
Buildings and Tower	2,043,123
Automobiles	153,378
Furniture and fixtures	5,994,475
Machinery and equipment	1,637,285

	10,018,261
Less accumulated depreciation	8,148,877

	\$1,869,384

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31, 1994
Accounts payable	\$99,042
Accrued state taxes	25,126
Accrued payroll, commissions, and bonuses	133,473
Other accrued expenses	334,852

	\$592,493

5. OBLIGATIONS FOR TELEVISION FILM EXHIBITION RIGHTS

Obligation for television film exhibition rights at December 31, 1994 are as follows:

YEAR ENDING DECEMBER 31	AMOUNT
-----	-----
1995	\$908,652
1996	907,886
1997	822,655
1998	736,849
1999	539,332
Thereafter	293,448

Current portion	4,208,822
	908,652

Long-term obligations	\$3,300,170

6. COMMITMENTS AND CONTINGENCIES

LITIGATION -- In March 1990, a suit was commenced in the Superior Court of California, County of Alameda, against the Partnership, GP Station Partners, and certain individuals, in connection with the July 1989 transaction in which the assets of TSP were transferred to the Partnership and the Partnership distributed to the partners a major portion of the proceeds of a \$72 million borrowing. The plaintiffs in

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

the suit sought rescission of the asset transfer, the return by the general partner of all cash distributions made from the \$72 million borrowing, damages and other relief. The suit was subsequently dismissed on the grounds that the California courts were an inconvenient forum.

On April 8, 1992, the plaintiffs in the California suit and another plaintiff commenced an action in the United States District Court for the Southern District of New York against GP Station Partners and each of its general partners. The action, which the plaintiffs purported to bring individually and as representatives of the limited partners, sought damages and other relief. The Partnership Agreement contains exculpation and indemnification provisions relating to claims against GP Station Partners and its affiliates. In November 1992 the action was settled and discontinued following the court's denial of the plaintiff's motion for class certification. The settlement agreement provided for an exchange of general releases and for payment to the original plaintiffs of an amount equal to their share of the July 1989 distribution to partners (which the original Television Station Partners had been escrowing pending the outcome of the litigation), plus accrued interest, and those plaintiffs also agreed to waive all rights to any further distribution and to relinquish their interest in the Partnership without further consideration. No amount will be payable to the other plaintiff in the action. The agreement also provides for payment of \$75,000 to the plaintiffs' counsel as partial reimbursement of legal fees and expenses incurred in prosecuting the action. As part of the settlement, the limited partners' original investment of \$203,000, plus interest of approximately \$63,000 was paid. As a result of the litigation, the Partnership incurred legal fees of approximately \$579,000.

The Station is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial statements of the Station.

DEBT -- At December 31, 1994 the Partnership had \$71,900,000 of principal indebtedness outstanding under an Amended and Restated Credit Agreement (the "Agreement"). The Agreement is secured by a first lien on substantially all the assets of the Partnership. The Agreement requires the Partnership to enter into one or more binding sales contracts for the assets of each station, satisfactory to the Banks, on or before June 30, 1995. During the latter part of 1994, the Partnership contracted the services of Media Venture Partners for the purpose of marketing the stations. In February 1995, the Partnership signed letters of intent for the sale of the assets of each station. (Note 9)

7. TRANSACTIONS WITH RELATED PARTIES

The Partnership pays various operating and non-operating expenses on behalf of the Station. These expenses totaled approximately \$165,000 and \$177,000 for the years ended December 31, 1993 and 1994, respectively. Additionally, the Station transfers excess cash to the Partnership's headquarters. Excess cash transferred was \$1,909,588 and \$2,240,380 for the years ended December 31, 1993 and 1994, respectively. This money is primarily used for principal and interest payments on the Partnership's debt obligations.

8. PENSION PLAN

Effective January 1, 1993, the defined contribution pension plan was converted to a 401(k) salaried deferral plan with a Partnership profit sharing contribution of 3 1/2 percent of the participants' salary per annum. Annual contributions aggregating approximately \$40,585 and \$57,314 were made to the Plan during 1993 and 1994, respectively.

9. SUBSEQUENT EVENT

On February 10, 1995, the Partnership signed a letter of intent for the sale of the assets of WRDW-TV for approximately \$34 million, plus an amount equal to the excess of the current assets over the current liabilities assumed by the buyer, as defined in the Asset Purchase Agreement, if applicable, to be paid in cash at the closing of the sale.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
John H. Phipps, Inc.

We have audited the accompanying balance sheets of the Broadcasting and Paging Operations of John H. Phipps, Inc. (see Note 1) as of December 31, 1994 and 1995 and the related statements of operations and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the management of John H. Phipps, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Broadcasting and Paging Operations of John H. Phipps, Inc. at December 31, 1994 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Atlanta, Georgia
February 19, 1996

BROADCASTING AND PAGING OPERATIONS
OF
JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
BALANCE SHEETS

	----- DECEMBER 31, -----	
	1994	1995

ASSETS		
Current assets:		
Cash and cash equivalents	\$95,210	\$620,015
Accounts receivable, less allowance of \$49,000 for each year	4,474,754	5,152,778
Program broadcast rights, current portion	521,921	919,281
Other current assets	329,343	347,785

Total current assets	5,421,228	7,039,859
Program broadcast rights, excluding current portion	579,561	575,111
Property and equipment, net (NOTE 3)	10,720,196	10,492,583
Goodwill and other intangibles (NOTE 3)	8,576,721	9,454,775

Total assets	\$25,297,706	\$27,562,328

LIABILITIES AND OWNER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$467,300	\$365,468
Program broadcast obligations, current portion	722,676	921,579
Deferred paging service income	579,109	833,264
Current portion of long-term debt (NOTE 4)	1,206,483	1,389,931
Other current liabilities	1,025,042	907,345

Total current liabilities	4,000,610	4,417,587
Long-term debt, less current portion (NOTE 4)	4,858,433	3,419,918
Program broadcast obligations, less current portion	245,421	345,140
Commitment and contingencies (NOTES 9 AND 10)		
Minority interests	728,293	585,768
Owner's equity	15,464,949	18,793,915

Total liabilities and owner's equity	\$25,297,706	\$27,562,328

See accompanying notes.

BROADCASTING AND PAGING OPERATIONS
OF
JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Revenues:			
Broadcast revenues, net (NOTE 3)	\$17,963,667	\$20,209,523	\$20,768,121
Paging operations	3,787,946	4,276,640	4,897,522
Production and other revenues	1,496,417	1,314,779	1,655,940
	23,248,030	25,800,942	27,321,583
Expenses:			
Operating, technical and programming	5,221,729	5,306,801	5,449,435
Selling, general and administrative	6,919,769	7,056,510	7,693,715
Amortization of program broadcast rights	1,552,438	1,021,395	844,815
Depreciation and amortization	2,835,966	2,672,209	3,120,442
Pension credit (NOTE 5)	(431,000)	(409,000)	(449,000)
Management fees (NOTE 7)	2,462,195	2,485,423	3,280,354
	18,561,097	18,133,338	19,939,761
Interest	4,686,933	7,667,604	7,381,822
Other (income) expense, net	631,333	479,852	498,714
	(15,765)	(666,657)	(12,526)
Income before minority interests	4,071,365	7,854,409	6,895,634
Minority interests	(140,586)	(635,302)	(547,045)
Net income	\$3,930,779	\$7,219,107	\$6,348,589
Supplemental unaudited pro-forma information (NOTE 6):			
Net income, as above	\$3,930,779	\$7,219,107	\$6,348,589
Pro-forma provision for income tax expense	(1,500,300)	(2,743,300)	(2,412,500)
Pro-forma net income	\$2,430,479	\$4,475,807	\$3,936,089

See accompanying notes.

BROADCASTING AND PAGING OPERATIONS
OF
JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
OPERATING ACTIVITIES:			
Net income	\$3,930,779	\$7,219,107	\$6,348,589
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,835,966	2,672,209	3,120,442
Gain on disposition of fixed assets	(13,408)	(665,047)	(9,023)
Amortization of program broadcast rights	1,552,438	1,021,395	844,815
Payments of program broadcast rights obligations	(1,072,008)	(863,344)	(931,004)
Minority interests	140,586	635,302	547,045
Changes in operating assets and liabilities:			
Accounts receivable	40,092	(396,373)	(678,024)
Other current assets	(12,091)	(90,846)	(18,442)
Accounts payable and accrued expenses	(292,863)	(206,137)	(101,832)
Other current liabilities	219,336	277,681	(117,697)
Deferred paging income	68,136	204,356	254,155
Net cash provided by operating activities	7,396,963	9,808,303	9,259,024
INVESTING ACTIVITIES:			
Purchases of minority interests	-0-	(818,000)	(1,780,794)
Purchases of property and equipment	(3,537,592)	(3,353,068)	(3,187,596)
Proceeds from disposition of property and equipment	584,187	1,665,504	1,140,520
Net cash used in investing activities	(2,953,405)	(2,505,564)	(3,827,870)
FINANCING ACTIVITIES:			
Indebtedness:			
Borrowings	6,266,780	5,761,977	3,422,586
Repayments	(7,421,873)	(6,239,305)	(4,677,653)
Distributions to minority interests	(495,150)	(539,596)	(505,532)
Other	(134,536)	(156,475)	(126,128)
Payments to J.H. Phipps, Inc., net	(2,901,945)	(6,060,036)	(3,019,622)
Net cash used in financing activities	(4,417,652)	(7,233,435)	(4,906,349)
Increase in cash and cash equivalents	25,906	69,304	524,805
Cash and cash equivalents at beginning of year	-0-	25,906	95,210
Cash and cash equivalents at end of year	\$25,906	\$95,210	\$620,015

See accompanying notes.

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

1. BASIS OF PRESENTATION

Pursuant to a letter of intent dated December 15, 1995, Gray Communications Systems, Inc. ("Gray") agreed to purchase substantially all of the assets and assume certain liabilities and commitments of certain operations owned by J.H. Phipps, Inc. ("Phipps"). The operations include (i) two CBS affiliates-a VHF television station (WCTV-TV located in Tallahassee, Florida), and 74.5% interest in a UHF television station (WKXT-TV located in Knoxville, Tennessee), (the "Broadcast Operations"); and (ii) a portable communications and paging service business (the "Paging Operations"), with operations in three southeastern states (collectively referred to as the "Broadcasting and Paging Operations"). The purchase is subject to regulatory approval.

At December 31, 1995, a Phipps subsidiary held the 74.5% interest in the partnership that owns WKXT-TV (the "Knoxville Partnership"). The Knoxville Partnership's remaining 25.5% interest is owned by four limited partners and their ownership is shown as "minority interests" in the accompanying financial statements. Gray, in separate agreements, has also agreed to purchase the limited partners' interests. Phipps' ownership of the Knoxville Partnership has increased, from 65.8% during 1993 to the 74.5% ownership interest at December 31, 1995, through purchases of certain minority interests for approximately \$818,000 in 1994 and approximately \$1.78 million in 1995. Goodwill recorded related to these acquisitions of minority interests was approximately \$200,000 and \$1.78 million in 1994 and 1995, respectively.

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

The accompanying financial statements are derived from the historical books and records of Phipps and do not give effect to any purchase accounting adjustments which Gray may record as a result of its acquisition. Certain current liabilities and long-term debt on the accompanying balance sheets will not be assumed by Gray. Such liabilities will be retained by Phipps or retired at the closing date of the acquisition by Gray.

2. ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

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

CONCENTRATION OF CREDIT RISK

The Broadcast Operations provide advertising air time to national, regional and local advertisers within the geographic areas in which the Broadcast Operations operate. Credit is extended based on an evaluation of the customer's financial condition, and generally advance payment is not required. The Paging Operations provide services to individuals and corporate customers in three southeastern states. Such services are generally billed in advance. Credit losses for the Broadcasting and Paging Operations are provided for in the financial statements and consistently have been within management's expectations.

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)
BARTER ARRANGEMENTS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on deposit with banks. Deposits with banks are generally insured in limited amounts. All liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast are initially recorded at the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use on the straight-line method. The portion of the unamortized balance expected to be charged to operating expense in the succeeding year is classified as a current asset, with the remainder classified as a noncurrent asset. The liability for program broadcast rights is classified as current or long-term, in accordance with the payment terms of the various licenses. The liability is not discounted for imputation of interest.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful life of the assets for financial reporting purposes and by accelerated methods for income tax purposes.

INTANGIBLE ASSETS

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

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

INTEREST SWAP

The Knoxville Partnership had an interest rate swap agreement to modify the interest characteristics of a portion of its outstanding debt (see Note 4. INDEBTEDNESS). The agreement, which expired during 1995, involved the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates changed was accrued and recognized as an adjustment of interest expense related to the debt (the accrual accounting method). Interest expense (income) adjustments resulting from the interest rate swap were \$44,385 in 1993, \$(986) in 1994 and \$(2,805) in 1995.

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)
STOCK BASED COMPENSATION

Phipps accounted for its stock Appreciation Rights Plan (see Note 7. PHIPPS CORPORATE ALLOCATIONS) in accordance with APB Opinion No 25, Accounting for Stock Issued to Employees and related interpretations.

INCOME TAXES

Phipps and its subsidiaries file a consolidated federal income tax return and separate state tax returns. The operating results of the Knoxville Partnership are included in the income tax returns of Phipps based on their percentage ownership. All states where the Broadcast and Paging Operations are located have taxes based on income. Income tax expense for the Broadcasting and Paging Operations are not presented in the accompanying financial statements as such amounts are computed and paid by Phipps. Pro-forma federal and state income taxes for the Broadcast and Paging Operations are calculated on a pro-forma, separate return basis (see Note 6. PRO-FORMA INCOME TAXES).

FAIR VALUES OF FINANCIAL INSTRUMENTS

Phipps has adopted FASB Statement No. 107, "Disclosure about Fair Value of Financial Instruments", which requires disclosure of fair value, to the extent practical, of certain of Phipps' financial instruments. The fair value amounts do not necessarily represent the amount that could be realized in a sale or settlement. Phipps' financial instruments are comprised principally of an interest rate swap and long-term debt.

The estimated fair value of long-term bank debt at December 31, 1995 approximates book value since, in management's opinion, such obligations are subject to fluctuating market rates of interest and can be settled at their face amounts. The Company does not anticipate settlement of long-term debt at other than book value and currently intends to hold such financial instruments through maturity.

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("Statement 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairments are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Phipps does not believe that the adoption of Statement 121 will have a material impact on Phipps' financial position.

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Major classifications of property and equipment and their estimated useful lives are summarized as follows (in 000's):

CLASSIFICATION	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31,	
		1994	1995
Land		\$593	\$593
Buildings and improvements	40	2,630	3,104
Broadcasting equipment and furniture	5-20	15,440	14,567
Communications and paging equipment	5-7	4,561	4,739
		23,224	23,003
Less accumulated depreciation		(12,504)	(12,510)
		\$10,720	\$10,493

The composition of intangible assets was as follows (in 000's):

	DECEMBER 31,	
	1994	1995
Goodwill	\$3,050	\$4,578
Broadcast licenses and network affiliation agreements	6,162	6,162
Other	812	812
Accumulated amortization	(1,447)	(2,182)
	\$8,577	\$9,370

The composition of other current liabilities is as follows (in 000's):

	DECEMBER 31,	
	1994	1995
Customer deposits	\$63	\$85
Accrued bonuses	163	265
Other compensation related accruals	404	439
Other	395	118
	\$1,025	\$907

The Broadcast Operations' revenues are presented net of agency commissions as follows (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Broadcast revenues, gross	\$20,523	\$23,131	\$23,767
Agency commissions	(2,559)	(2,921)	(2,999)
Broadcast revenues, net	\$17,964	\$20,210	\$20,768

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
(THE PHIPPS BUSINESS)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION (CONTINUED)

Components of "Other (income) expense, net" are as follows (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Interest income	\$2	\$2	\$4
Gain on sale of assets	14	665	9
	\$16	\$667	\$13

4. INDEBTEDNESS

A summary of indebtedness is as follows (in 000's):

	DECEMBER 31,	
	1994	1995
Bank Credit Agreement:		
Revolving credit loan	\$302	\$498
Term loan	4,500	3,202
Partnership Note Payable	744	725
PortaPhone Acquisition Debt	518	385
	6,064	4,810
Less current portion	(1,206)	(1,390)
	\$4,858	\$3,420

BANK CREDIT AGREEMENT

The Knoxville Partnership has a bank credit agreement (the "Bank Credit Agreement") which provides a term loan and a revolving credit facility. The loan has provisions which, among other things, requires that the loan be redeemed in the event of a change in control.

Under the terms of the Bank Credit Agreements, the Knoxville Partnership may, at its option, have a Base Rate Advance or LIBOR (London Interbank Official Rate) Advance, as specified by the bank in the notice of borrowing. Base Rate Advances and LIBOR Advances may be outstanding at the same time with Base Rate Advances bearing interest at the bank's index rate (8.5% at December 31, 1995), plus .25% or .50% as applicable based on the Partnership's leverage ratio. LIBOR Advances bear interest at the LIBOR (5.88% at December 31, 1995), plus 1.25% or 1.5% as applicable based on the Knoxville Partnership's leverage ratio. Base Rate Advances and LIBOR Advances totaled \$0 and \$3.7 million, respectively, at December 31, 1995.

The Bank Credit Agreement contains numerous financial covenants and other affirmative covenants with regard to payment of distributions to partners, operating and capitalized leases, and acquisition of property. The advances are guaranteed by Phipps and collateralized by substantially all the Knoxville Partnership's assets. In connection with the Phipps guarantee, Phipps charged the Knoxville Partnership guaranty fees, classified as interest expense in the accompanying financial statements, of approximately \$55,000 in 1993, \$54,000 in 1994 and \$42,000 in 1995.

PARTNERSHIP NOTE PAYABLE

On September 30, 1994, Phipps acquired approximately 4.2% additional ownership interest in the Knoxville Partnership from a limited partner. The total amount to be paid to the former limited partner by the remaining partners is \$2 million and is payable over 20 years at \$100,000 a year. The payment of this

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. INDEBTEDNESS (CONTINUED)

amount is guaranteed by the Knoxville Partnership. The first payment of \$100,000 was made at the time the assignment was executed. Subsequent payments are due annually at September 30. The present value of the total purchase price at September 30, 1994 was \$1,098,841 based on an interest factor of 7.46% compounded annually. Phipps Tennessee has recorded a liability of approximately \$725,000 at December 31, 1995 for its portion of the outstanding balance.

PORTAPHONE ACQUISITION DEBT

In connection with a 1988 asset acquisition, PortaPhone is required to pay the seller a consulting fee of \$15,000 monthly for ten years. The liability for the monthly payments required under the agreement are recorded at a discounted present value in the accompanying financial statements.

Future scheduled reductions of principal for indebtedness are as follows (in 000's):

Year Ended December 31	
1996	\$ 1,390
1997	1,155
1998	1,557
1999	81
2000 and thereafter	627

	\$ 4,810

Cash payments of net interest expense were approximately \$339,000 in 1993, \$449,000 in 1994 and \$564,000 in 1995.

5. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION PLAN

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

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

Total pension credit for the Broadcasting and Paging Operations was (\$431,000), (\$409,000) and (\$449,000) for 1993, 1994 and 1995, respectively.

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following summarizes information for all Phipps operations including the plan's funded status as of the plan's September 30 year end and assumptions used to develop the net periodic pension expenses credit (in 000's).

	DECEMBER 31,		
	1993	1994	1995
Actuarial present value of accumulated benefit obligation is as follows:			
Vested	\$3,691	\$3,451	\$4,348
Other	382	284	358
	\$4,073	\$3,735	\$4,706
Plan assets at fair value, primarily common stocks and bonds	\$9,582	\$9,367	\$10,206
Projected benefit obligation	(4,993)	(4,419)	(5,568)
Plan assets in excess of projected benefit obligation	4,589	4,948	4,638
Unrecognized net (gain) loss	804	688	1,288
Unrecognized net asset	(3,394)	(3,149)	(2,904)
Pension asset	\$1,999	\$2,487	\$3,022

The net pension credit included in the accompanying financial statements is calculated as follows (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Service costs-benefits earned during the year	\$168	\$207	\$144
Interest cost on projected benefit obligation	280	306	303
Actual return on plan assets	(670)	(713)	(687)
Net amortization and deferral	(209)	(209)	(209)
Net pension credit	\$(431)	\$(409)	\$(449)

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

Assumptions:	7.5%	8.5%	7.5%
Discount rate	7.5%	8.5%	7.5%
Expected long-term rate of return on assets	9.0%	9.0%	9.0%
Estimated rate of increase in compensation levels	4.5%	4.5%	4.5%

401(K) PLAN

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

MANAGEMENT INCENTIVE BONUS PLAN

Phipps maintains an incentive bonus plan in which managers participate in the performance of the division of Phipps which they manage. Eligible employees are selected by the Board of Directors, and the bonus formula is established and reviewed annually by the Board of Directors and key members of management. Bonuses are calculated in the year following the year earned, at which time one-half of the

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. EMPLOYEE BENEFIT PLANS (CONTINUED)

calculated bonus is paid as compensation. The remaining portion is deferred and earned by the employee over five years based on a vesting schedule adopted by the Board. Employees become eligible to receive payment of deferred amounts upon full vesting. Deferred amounts are recognized as an expense in the year earned. Expenses under this plan were approximately \$128,000 in 1993, \$170,000 in 1994 and \$233,000 in 1995.

Cumulative amounts vested for the Broadcasting and Paging Operations since the inception of the plan in 1990, total approximately \$300,000 at December 31, 1995 and are included as a current liability in the accompanying financial statements.

6. PRO-FORMA INCOME TAXES

Pro-forma income tax expense differed from the amounts computed by applying the statutory federal income tax rate of 34% as a result of the following (in 000's):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Computed "expected" tax rate	\$ 1,342	\$ 2,454	\$ 2,159
Increase resulting from:			
State income taxes	158	289	253
	\$ 1,500	\$ 2,743	\$ 2,412

7. PHIPPS' CORPORATE ALLOCATIONS

Interest expense incurred by Phipps is allocated to the Broadcasting and Paging Operations based on specific borrowings. Such allocated interest expense totaled approximately \$134,700 in 1993, \$44,000 in 1994 and \$64,500 in 1995. Pension expense (credit) is allocated based on an actuarial calculation (see Note 5. EMPLOYEE BENEFITS PLANS)

The corporate operations and employees of Phipps provide certain services to the Broadcasting and Paging Operations including executive management, cash management, accounting, tax and other corporate services which are allocated to the operating units of Phipps. Corporate expenses of Phipps, including corporate officers salaries and related employee benefits (see Stock Appreciation Rights and Performance Incentive Agreement below), travel costs, and related support staff and operations, are allocated to the operating units of Phipps. The Broadcasting and Paging Operations were charged \$2,462,195, \$2,485,423, and \$3,280,354 for these services during 1993, 1994 and 1995, respectively. In the opinion of Phipps management, these charges have been made on a basis which is reasonable, however, they are not necessarily indicative of the level of expenses which might have been incurred by the Broadcasting and Paging Operation on a stand-alone basis.

Phipps maintains a Stock Appreciation Rights Plan and Performance Incentive Agreement for certain key corporate officers identified by the Board of Directors. The expenses incurred for these plans are allocated to the Broadcasting and Paging Operations as part of the management fee allocation for Phipps' corporate expenses as discussed above. All amounts due under these plans were paid in December 1995. Compensation expense recorded for these plans in 1993, 1994 and 1995 was approximately \$2,828,000, \$2,458,000 and \$2,861,000, respectively.

8. SUMMARY ACTIVITY IN OWNER'S EQUITY

Phipps provides centralized cash management for the Broadcasting and Paging Operations. Substantially all cash receipts are remitted to Phipps and substantially all disbursements are made by Phipps. There

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SUMMARY ACTIVITY IN OWNER'S EQUITY (CONTINUED)

are no terms of settlement for interest charges on these intercompany accounts. The amounts due to/from Phipps are included as a part of owner's equity as the Broadcasting and Paging operations are not required to settle these amounts on a current basis.

An analysis of the net transactions in the owner's equity accounts for each of the three years in the period ended December 31 is as follows (in 000's):

	1993	1994	1995
Balance of the beginning of year	\$13,276	\$14,306	\$15,131
Payments to Phipps	(5,067)	(8,181)	(7,696)
Phipps purchase of minority interests	-0-	-0-	1,781
Phipps allocations	2,166	2,121	2,875
Net earnings	3,931	7,219	6,349
Balance at the end of year	\$14,306	\$15,465	\$18,794

9. LITIGATION

At December 31, 1995, the Broadcast and Paging Operations are involved in various lawsuits arising in the normal course of their business. However, management believes that any potential losses that may occur from such lawsuits would be covered by insurance and the final outcome of these lawsuits will not have a material effect to the accompanying combined financial statements.

10. COMMITMENTS AND CONTINGENCIES

Program rights payable for films and syndicated series, which are noninterest bearing, are due as follows at December 31, 1995 (in 000's):

1996	\$922
1997	171
1998 and later	174

	\$1,267

Payments related to commitments for films and syndicated series, rights which are not yet available for broadcast at December 31, 1995 are due as follows (in 000's):

1996	\$106
1997	631
1998	515
1999	440
2000	283

	\$1,975

The Paging Operations lease office space, office equipment and paging network towers. The Broadcasting Operations lease land and broadcast towers. The operating leases with unaffiliated entities have various

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

renewal options. Certain of the towers used in the Paging Operations are leased from Phipps. Written contracts do not exist for such leases but management has established that the leases are for five years and are renewable at the end of five years. Rental expense for operating leases was as follows (in 000's):

	PHIPPS	OTHER LESSORS	TOTAL
Year Ended December 31			
1993	\$58	\$384	\$442
1994	64	316	380
1995	83	385	468

The minimum aggregate rentals under noncancelable operating leases are payable the lessors as follows (in 000's):

	PHIPPS	OTHER LESSORS	TOTAL
Year Ended December 31			
1996	\$118	\$329	\$447
1997	122	240	362
1998	125	190	315
1999	129	61	190
2000 and thereafter	133	59	192
	\$627	\$879	\$1,506

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.
 (THE PHIPPS BUSINESS)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. INFORMATION ON BUSINESS SEGMENTS (IN 000'S):

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
REVENUES			
Broadcasting Operations	\$19,460	\$21,524	\$22,424
Paging Operations	3,788	4,277	4,898
Total revenues	\$23,248	\$25,801	\$27,322
OPERATING PROFIT:			
Broadcasting Operations	\$4,631	\$7,287	\$7,040
Paging Operations	56	381	342
Total operating profit	\$4,687	\$7,668	\$7,382
DEPRECIATION AND AMORTIZATION EXPENSE:			
Broadcasting Operations	\$2,089	\$2,015	\$2,302
Paging Operations	747	657	818
Total depreciation and amortization expense	\$2,836	\$2,672	\$3,120
CAPITAL EXPENDITURES:			
Broadcasting Operations	\$2,429	\$1,515	\$1,216
Paging Operations	1,109	1,838	1,972
Total capital expenditures	\$3,538	\$3,353	\$3,188
IDENTIFIABLE ASSETS (AT END OF YEAR):			
Broadcasting Operations	\$21,003	\$21,059	\$23,036
Paging Operations	3,816	4,239	4,526
Total identifiable assets	\$24,819	\$25,298	\$27,563

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

PROXY

GRAY COMMUNICATIONS SYSTEMS, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY

The undersigned does hereby constitute and appoint WILLIAM E. MAYHER, III and RALPH W. GABBARD and each of them with power of substitution to each, the proxies of the undersigned to vote all shares of GRAY COMMUNICATIONS SYSTEMS, INC. which the undersigned may be entitled to vote at the Annual Meeting of its shareholders to be held on June 27, 1996, at 9:00 a.m. local time and at any adjournment or adjournments thereof upon the matters described in the accompanying Proxy Statement and upon any other business that may properly come before the meeting or adjournment thereof. Said proxies are directed to vote or to refrain from voting as checked below upon the following matters, and otherwise in their discretion upon other matters in connection with the following or otherwise as may properly come before the meeting or any adjournment thereof.

(CONTINUED ON THE OTHER SIDE)

FOLD AND DETACH HERE

BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL PROPOSALS

Please mark your votes as indicated in this example /X/

1. Election of eight (8) Directors

Nominees: Richard L. Boger, Ralph W. Gabbard, Hilton H. Howell, Jr., William E. Mayher, III, Howell Newton, Hugh Norton, Robert S. Prather, Jr., and J. Mark Robinson

FOR all except as listed below WITHHOLD AUTHORITY
// //

(INSTRUCTION: To refrain from voting on any individual nominee, write that nominee's name on the space provided below.)

UNLESS OTHERWISE SPECIFIED THIS PROXY SHALL BE VOTED "FOR" EACH OF THE PROPOSALS

2. Proposal to amend to the Company's Articles of Incorporation to (a) increase the voting rights of the Class A Common Stock of no par value by a multiple of ten such that the Class A Common Stock shall have ten (10) votes per share on each matter that is submitted to stockholders for approval, (b) redesignate the presently authorized Class B Non-Voting Common Stock of no par value, such that the Class B Common Stock of no par value shall have one (1) vote per share on each matter that is submitted to shareholders for approval and shall have certain shareholder rights (c) to increase the authorized number of shares of the Company's Capital Stock to 50,000,000 shares designating 15,000,000 as Class A Common Stock of no par value; 15,000,000 shares as Class B Common Stock of no par value; and 20,000,000 shares as preferred stock.

FOR AGAINST ABSTAIN
// // //

3. Proposal to amend to the Company's Bylaws to permit an increase of the voting rights of the Class A Common Stock to ten (10) votes per share.

FOR AGAINST ABSTAIN
// // //

4. Proposal to amend to the Company's 1992 Long Term Incentive Plan for certain employees of the Company and its subsidiaries to provide for the issuance of Class B Common Stock of the Company instead of Class A Common Stock and to reserve for issuance an aggregate of 400,000 shares of Class B Common Stock of the Company.

FOR AGAINST ABSTAIN
// // //

5. Proposal to approve the issuance of warrants to purchase 487,500 shares of Class A Common Stock to Bull Run Corporation.

FOR AGAINST ABSTAIN
// // //

6. Proposal to approve the issuance of warrants to purchase 500,000 shares of Class A Common Stock to Bull Run Corporation.

FOR AGAINST ABSTAIN
// // //

7. Proposal to ratify the Board's approval of amendment to the Company's non-qualified stock option plan for the non-employee directors of the Company.

FOR AGAINST ABSTAIN
// // //

8. Proposal to approve the appointment of Ernst & Young as independent auditors of the Company and its subsidiaries for the year ending December 31, 1996.

FOR AGAINST ABSTAIN
// // //

SIGNATURE(S) _____

SIGNATURE(S) _____ DATE _____, 1996

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

FOLD AND DETACH HERE