SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 14, 1998 (July 31, 1998)

Gray Communications Systems, Inc.

(Exact name of registrant as specified in its charter)

Georgia	1-13796	58-0285030
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

126 N. Washington Street, Albany, GA	31701
(Address of principal executive offices)	(Zip code)

(912) 888-9390

(Registrant's telephone number, including area code)

Item 2. Acquisition or Disposition of Assets.

On July 31, 1998, Gray Communications Systems, Inc. (the "Company") completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was $112 million plus Busse's cash balance at July 31, 1998. The purchase price includes the assumption of Busse's indebtedness, including its 11 5/8% Senior Secured Notes due 2000. Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation ("Cosmos") acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at $66 million, and approximately $12 million in cash for a total value of $78 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse 11 5/8% Senior Secured Notes ("Busse Senior Notes"), effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately $69.9 million. The transactions described above are referred to herein as the "Busse-WALB Transactions."

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

The Company funded the costs of this transaction through a senior credit facility ("Senior Credit Facility") with NationsBank, N.A., KeyBank National Association, CIBC, Inc., CoreStates Bank, N.A. and the Bank of New York. The Company will pay Bull Run Corporation, an affiliate of the Company, a fee equal to 1% of the purchase price for services performed.

The terms of the Busse-WALB Transactions, including the consideration paid by the Company therefor, were determined in arms-length negotiations between the Company, Busse and Cosmos.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The following unaudited interim financial statements of Busse Broadcasting Corporation are included in Appendix A hereto and incorporated herein by reference:

Condensed Consolidated Balance Sheets as of June 28, 1998 and December 28, 1997 (Unaudited)

Condensed Consolidated Statements of Operations for the three months ended June 28, 1998 and June 29, 1997 (Unaudited)

Item 7. Financial Statements and Exhibits (Continued).

Condensed Consolidated Statements of Operations for the six months ended June 28, 1998 and June 29, 1997 (Unaudited)

Condensed Consolidated Statements of Cash Flows for the six months ended June 28, 1998 and June 29,1997 (Unaudited)

Notes to Condensed Consolidated Financial Statements for the six months ended June 28, 1998 (Unaudited)

The following audited financial statements of Busse Broadcasting Corporation are included in Appendix B hereto and incorporated herein by reference:

Independent Auditors' Report
Consolidated Balance Sheets as of December 28, 1997 and December 29, 1996
Consolidated Statements of Operations for the fiscal years ended December 28, 1997 and December 29, 1996; the fiscal period from May 3, 1995 through December 31, 1995; and the fiscal period from January 2, 1995 through May 2, 1995
Consolidated Statements of Stockholders' Equity (Deficit) for the three years ended December 28, 1997
Consolidated Statements of Cash Flows for the fiscal years ended December 28, 1997 and December 29, 1996; the fiscal period from May 3, 1995 through December 31, 1995; and the fiscal period from January 2, 1995 through May 2, 1995
Notes to Consolidated Financial Statements for the three years ended December 28, 1998

(b) Pro Forma Financial Information.

The pro forma financial information is included in Appendix C hereto and incorporated herein by reference.

SIGNATURES

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

Gray Communications Systems, Inc.

By: /s/ James C. Ryan

James C. Ryan
Vice President--Finance and
Chief Financial Officer

Date: October 14, 1998

APPENDIX A

BUSSE BROADCASTING CORPORATION

Condensed Financial Statements (Unaudited)

June 28, 1998

Busse Broadcasting Corporation

Condensed Consolidated Balance Sheets
Unaudited

	June 28, 1998	December 28, 1997
Assets (Note 1)		
Current assets:		
Cash and cash equivalents (Note 2)	$ 9,045,736	$ 8,974,699
Receivables, net	3,650,675	3,804,410
Other current assets	776,646	1,343,483
Total current assets	13,473,057	14,122,592
Property, plant and equipment, net	12,555,079	13,226,067
Deferred charges and other assets	1,503,221	1,811,809
Intangible assets and excess reorganization value	46,826,755	48,775,820
Total assets	$ 74,358,112	$ 77,936,288
Liabilities and stockholders' equity (Note 1)		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,360,295	$ 4,161,712
Long-term debt (Note 2)	61,168,080	60,918,857
Stockholders' equity:		
Series A cumulative convertible preferred stock (non-voting) - $.01 par value, $1,000 per share liquidation preference; 65,524.41 shares authorized, issued and outstanding including dividends in arrears of $11,897,150 and $9,485,924 at June 28, 1998 and December 28, 1997, respectively	29,227,810	26,816,584
Common stock (voting) - $.01 par value; 2,154,000 shares authorized, and 107,700 shares issued and outstanding	1,077	1,077
Additional paid-in capital - common stock	9,185,772	9,185,772
Accumulated deficit	(27,584,922)	(23,147,714)
Total stockholders' equity	10,829,737	12,855,719
Total liabilities and stockholders' equity	$ 74,358,112	$ 77,936,288

See accompanying notes to condensed consolidated financial statements.

Busse Broadcasting Corporation

Condensed Consolidated Statements of Operations
Unaudited

	Three Months ended	
	June 28, 1998	June 29, 1997
Net revenue	$ 5,488,694	$ 5,284,833
Operating costs and expenses, excluding depreciation and amortization	2,177,559	2,180,756
Depreciation	427,494	530,269
Amortization of intangibles and excess reorganization value	960,440	977,126
Total operating costs and expenses	3,565,493	3,688,151
Corporate expenses	407,255	387,601
Income from operations	1,515,946	1,209,081
Other income (expense):		
Interest expense	(2,099,150)	(2,084,508)
Interest income	126,254	90,062
Gain on disposition of assets	1,150	370
Other income (expense)	5,872	(3,916)
Other expense	(1,965,874)	(1,997,992)
Loss from operations before income taxes	(449,928)	(788,911)
Provision for current income taxes (Note 3)	--	--
Net loss	(449,928)	(788,911)
Charges to stockholders' equity for Series A preferred stock dividends in arrears	(1,205,613)	(1,205,613)
Net loss attributable to common stockholders	$(1,655,541)	$(1,994,524)
Per common share - basic and diluted (Note 1):		
Loss from operations	$ (4.18)	$ (7.33)
Series A preferred stock dividends in arrears	(11.19)	(11.19)
Net loss attributable to common stockholders	$ (15.37)	$ (18.52)
Weighted average common shares outstanding - basic and diluted	107,700	107,700

See accompanying notes to condensed consolidated financial statements.

Busse Broadcasting Corporation

Condensed Consolidated Statements of Operations
Unaudited

	Six Months ended	
	June 28, 1998	June 29, 1997
Net revenue	$10,215,822	$ 9,549,775
Operating costs and expenses, excluding depreciation and amortization	4,448,310	4,345,637
Depreciation	919,906	1,060,538
Amortization of intangibles and excess reorganization value	1,949,065	1,989,904
Total operating costs and expenses	7,317,281	7,396,079
Corporate expenses	960,135	740,554
Income from operations	1,938,406	1,413,142
Other income (expense):		
Interest expense	(4,192,307)	(4,163,284)
Interest income	227,078	186,576
Gain on disposition of assets	1,161	390
Other income (expense)	(320)	65,199
Other expense	(3,964,388)	(3,911,119)
Loss from operations before income taxes	(2,025,982)	(2,497,977)
Provision for current income taxes (Note 3)	--	--
Net loss	(2,025,982)	(2,497,977)
Charges to stockholders' equity for Series A preferred stock dividends in arrears	(2,411,226)	(2,411,226)
Net loss attributable to common stockholders	$(4,437,208)	$(4,909,203)
Per common share - basic and diluted (Note 1):		
Loss from operations	$ (18.81)	$ (23.19)
Series A preferred stock dividends in arrears	(22.39)	(22.39)
Net loss attributable to common stockholders	$ (41.20)	$ (45.58)
Weighted average common shares outstanding - basic and diluted	107,700	107,700

See accompanying notes to condensed consolidated financial statements.

Busse Broadcasting Corporation

Condensed Consolidated Statements of Cash Flows
Unaudited

	Six Months ended	
	June 28, 1998	June 29, 1997
Operating activities:		
Net loss	$(2,025,982)	$(2,497,977)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,868,971	3,050,442
Non cash interest expense	249,222	220,199
Amortization of deferred financing costs	308,703	308,703
Program payments over program amortization	(4,247)	(2,085)
Gain on disposition of property, plant and equipment	(1,161)	(390)
Deferred compensation expense	122,548	174,520
Pension expense	--	60,000
Change in current assets and liabilities:		
Receivables	153,735	21,350
Other current assets	65,262	15,782
Deferred compensation payment	(1,065,000)	--
Accounts payable and accrued expenses	(353,142)	(369,718)
Net cash provided by operating activities	318,909	980,826
Investing activities:		
Capital expenditures	(248,919)	(479,099)
Proceeds from disposition of assets	1,162	390
Increase in other assets	(115)	(3,367)
Net cash used in investing activities	(247,872)	(482,076)
Net cash used in financing activities	--	--
Net increase in cash and cash equivalents	71,037	498,750
Cash and cash equivalents at beginning of period	8,974,699	7,989,805
Cash and cash equivalents at end of period	$ 9,045,736	$ 8,488,555
Supplemental disclosure of cash flow information:		
Interest paid during the period	$ 3,634,382	$ 3,634,382
Income taxes paid during the period	$ --	$ --

See accompanying notes to condensed consolidated financial statements.

Busse Broadcasting Corporation

Notes to Condensed Consolidated Financial Statements
Unaudited

June 28, 1998

1. Basis of Presentation

The condensed consolidated financial statements include Busse Broadcasting Corporation and its wholly owned subsidiaries (collectively Busse or the Company) engaged in the following businesses:

Television:		
KOLN/KGIN-TV	CBS Affiliate	Lincoln/Grand Island, Nebraska
WEAU-TV	NBC Affiliate	Eau Claire/La Crosse, Wisconsin

(Sold July 31, 1998 as discussed in Note 5 "Sale of the Company's Capital Stock and Like-kind Exchange of Assets", herein.)

All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements in conjunction with the related notes to the financial statements reflect, in the opinion of the Company, all adjustments, consisting of only normal recurring adjustments necessary to present fairly the Company's financial position and results of operations for the unaudited interim periods. Results for such interim periods are not necessarily indicative of the results for the respective entire years.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto of Busse Broadcasting Corporation included in the Company's 1997 Annual Report on Form 10-K.

The Company and its wholly-owned subsidiary filed voluntary petitions for a joint plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Plan") on March 10, 1995. On April 20, 1995 the United States Bankruptcy Court for the district of Delaware (the "Court") confirmed the Plan, such Plan became effective May 3, 1995 (the "Effective Date") and the respective Chapter 11 cases were closed by the Court on September 21, 1995.

2. Debt

Debt is summarized as follows:

	June 28, 1998	December 28, 1997
Senior Secured Notes, net of unamortized original issue discount of $1,358,920 and $1,608,143 at June 28, 1998 and December 28, 1997, respectively	$ 61,168,080	$ 60,918,857

On October 26, 1995 the Company issued $62,527,000 principal amount of 11 5/8% Senior Secured Notes due October 15, 2000 ("Senior Notes") at a price of 95.96% of the aggregate principal amount thereof. As discussed more fully in Note 5, herein, on July 31, 1998 the Company effected a satisfaction and discharge (the "Discharge") of the Senior Notes in accordance with the indenture pursuant to which the Senior Notes were issued (the "Indenture"). The Senior Notes were discharged by the Company depositing $69,913,002, in cash, with the Indenture's trustee and collateral agent (the "Trustee") and providing the Trustee an irrevocable direction to redeem all of the outstanding Senior Notes on October 15, 1998 at a redemption price of 106% of the aggregate principal amount of the Senior Notes plus accrued and unpaid interest as of the date of the redemption. The cash deposited with the Trustee is equal to 100% of the aggregate cash required to effect the Senior Note redemption on October 15, 1998. Such cash deposit and irrevocable direction effected a satisfaction and discharge of the Senior Notes pursuant to the Indenture.

3. Income Taxes

As of December 28, 1997 the Company had approximately $61.4 million of federal net operating loss carryforwards ("NOL's") which begin to expire in 2005. As a result of the Plan (see Note 1) the Company elected treatment under Section 382 (1) (5) of the Internal Revenue Code, as amended (the "Code"). This treatment will allow the Company to utilize, under certain restrictions, its NOL's to offset taxable income incurred after the Effective Date. Utilization of a portion of these NOL's are assumed in the Company's calculation of Post-Effective Date deferred taxes.

As discussed more fully in Note 5 herein, on July 31, 1998 the Company sold the WEAU Assets, as defined in Note 5 herein, and recognized a gain, on a tax basis, of approximately $60 million. Such gain will be offset by and reduce the Company's NOL's.

Also, as discussed more fully in Note 5, herein, on July 31, 1998 after completion of the sale of the WEAU Assets, as defined in Note 5, 100% of the Company's capital stock was acquired by Gray Communications Systems, Inc. ("Gray"), as described in Note 5; such acquisition will subject the Company's remaining NOL's to certain limitations under section 382 of the Code.

Busse Broadcasting Corporation

Notes to Condensed Consolidated Financial Statements (continued)
Unaudited

4. Corporate Reorganization/Subsidiary Guarantors

Prior to their Discharge, as discussed in Notes 2 and 5, the Senior Notes were fully and unconditionally guaranteed, on a joint and several and senior secured basis, by all of the Company's direct and indirect subsidiaries, each of which is wholly-owned.

The following tables present summarized combined balance sheet and operating statement information for (i) KOLN/KGIN, Inc. (ii) KOLN/KGIN License, Inc. and (iii) WEAU License, Inc. Separate financial statements of KOLN/KGIN, Inc. immediately follow these notes to condensed consolidated financial statements of Busse Broadcasting Corporation. Separate financial statements and other disclosures concerning KOLN/KGIN License, Inc. and WEAU License, Inc. have not been presented because management has determined that such financial statements would not be material to investors. On June 29, 1998 WEAU License, Inc. was merged into WEAU License, LLC, a Delaware limited liability company solely controlled by Busse (WEAU, LLC") with WEAU LLC being the surviving entity.

	June 28, 1998	December 28, 1997
Assets		
Current assets	$ 2,851,333	$ 3,377,708
Non-current assets	43,954,877	45,525,932
	$46,806,210	$48,903,640
Liabilities and stockholder's equity		
Current liabilities	$ 619,465	$ 1,112,618
Non-current liabilities	6,198,320	6,373,635
Stockholder's equity	39,988,425	41,417,387
Total liabilities and stockholder's equity	$46,806,210	$48,903,640

	Three months ended		Six months ended	
	June 28, 1998	June 29, 1997	June 28, 1998	June 29, 1997
Net revenue	$ 3,606,773	$ 3,342,150	$ 6,835,017	$ 6,161,283
Total operating costs and expenses	2,598,299	2,600,245	5,420,756	5,215,201
Income from operations	1,008,474	741,905	1,414,261	946,082
Net loss	$ (518,646)	$ (605,977)	$ (1,428,962)	$ (1,552,868)

5. Sale of the WEAU Assets, Like-kind Exchange of Assets and Sale of 100% of the Capital Stock of the Company

On July 31, 1998 Busse and WEAU LLC sold all of the assets of WEAU-TV, Eau Claire Wisconsin, including the FCC licenses controlled by WEAU LLC, (collectively the "WEAU Assets") to Cosmos Broadcasting Corp. ("Cosmos") for an aggregate cash purchase price of $66 million. In accordance with the Indenture, the Company directed the $66 million of proceeds be deposited with the Indenture Trustee.

Also on July 31, 1998, Busse; Gray; two subsidiaries of Gray (WALB-TV, Inc. and WALB Licensee Corp. collectively referred to herein as the "Gray Subsidiaries"); and Cosmos effected a like-kind exchange transaction (the "Like-kind Exchange") as follows: (i) the Gray Subsidiaries sold to Cosmos substantially all of the assets from the Gray Subsidiaries in exchange for the WEAU Assets plus an aggregate cash payment of $12 million and (ii) Cosmos directed Busse to deliver the respective WEAU Assets directly to the Gray Subsidiaries to complete the Like-kind Exchange.

After consummation of the sale of the WEAU Assets and the Like-kind Exchange, Gray acquired all of the capital stock of Busse for an aggregate net purchase price of $57.4 million, which was paid in cash to the Company's stockholders. The aggregate net purchase price was derived by the sum of (i) $112 million, plus (ii) the Company's cash and cash equivalents, less (iii) the aggregate amount of the Company's indebtedness and accrued and unpaid interest thereon, including the accreted amount of the Company's Senior Notes, less (iv) certain other purchase price adjustments. The value of the Company's cash, cash equivalents, aggregate indebtedness and other purchase price adjustments were determined as of the close of business on July 30, 1998.

Effective with the closing of the sale of the Company's capital stock, as discussed above, Messrs. Busse and Ryan resigned as executive officers of, and terminated their respective employment with, the Company and its affiliates. Messrs. Busse, Beck and Cornwell resigned as directors of the Company and Mr. Busse resigned as a director of each of the Company's affiliates.

Gray, upon acquisition of Busse's stock elected the following directors for Busse: Messrs. Richard L. Boger, Hilton H. Howell, William E. Mayher, III, Howell Newton, Hugh Norton, Robert S. Prather, Mrs. Harriett J. Robinson and Mr. J. Mack Robinson. Such new directors appointed the following executive officers of the Company: Mr. J. Mack Robinson as President and Chairman, Mr. Frederick J. Erickson as Chief Financial Officer, Mr. Robert Beizer as Secretary, Mr. Vance Luke as Assistant Secretary and Mr. Jackson S. Cowart, IV as Assistant Secretary.

5. Sale of the WEAU Assets, Like-kind Exchange of Assets and Sale of 100% of the Capital Stock of the Company (Continued)

After the change in control of the Busse capital stock and appointment of new directors and officers for the Company, Busse irrecoverably directed the Trustee to utilize certain collateral proceeds funds held by the Trustee along with certain other cash deposited by the Company with the Trustee as an irrevocable cash deposit aggregating $69,913,002, to redeem all of the outstanding Senior Notes on October 15, 1998 at 106% of the aggregate principal amount thereof and accrued and unpaid interest to the date of redemption. Such cash deposit and irrevocable direction effected a satisfaction and discharge of the Senior Notes pursuant to the Indenture.

APPENDIX B

BUSSE BROADCASTING CORPORATION

Financial Statements

December 28, 1998 and December 29, 1997

With Independent Auditors' Report Thereon

Report of Independent Auditors

The Board of Directors
Busse Broadcasting Corporation

We have audited the accompanying consolidated balance sheets of Busse Broadcasting Corporation (the Company) (Post-Effective Date) as of December 28, 1997 and December 29, 1996 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 28, 1997 and December 29, 1996 and the period from May 3, 1995 through December 31, 1995. We have also audited the accompanying consolidated statements of operations, stockholders' equity (deficit), and cash flows of Busse Broadcasting Corporation (Pre-Effective Date) for the period from January 2, 1995 through May 2, 1995. Our audits also included the financial statement schedule listed in the index at Item 14. 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 Busse Broadcasting Corporation (Post-Effective Date) at December 28, 1997 and December 29, 1996 and the consolidated results of its operations and its cash flows for the years ended December 28, 1997 and December 29, 1996 and the period from May 3, 1995 through December 31, 1995 in conformity with generally accepted accounting principles; and the consolidated results of its operations and its cash flows (Pre-Effective Date) for the period from January 2, 1995 through May 2, 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

Milwaukee Wisconsin
February 19, 1998

Busse Broadcasting Corporation

Consolidated Balance Sheets

	DECEMBER 28, 1997	DECEMBER 29, 1996
ASSETS (NOTES 1 AND 3)		
Current assets:		
Cash and cash equivalents (NOTE 6)	$ 8,974,699	$ 7,989,805
Receivables, net	3,804,410	3,848,990
Other current assets	1,343,483	856,200
Total current assets	14,122,592	12,694,995
Property, plant and equipment, net	13,226,067	14,327,392
Deferred charges and other assets	1,811,809	2,424,312
Intangible assets and excess reorganization value	48,775,820	52,707,124
Total assets	$ 77,936,288	$ 82,153,823
LIABILITIES AND STOCKHOLDERS' EQUITY (NOTES 1 AND 3)		
Current liabilities		
Accounts payable and accrued expenses	$ 4,161,712	$ 3,174,795
Long-term debt (NOTE 6)	60,918,857	60,464,182
Other long-term liabilities	--	941,501
Commitments (NOTE 11)		
Stockholders' equity (NOTES 6 AND 10):		
Series A cumulative convertible preferred stock (non-voting) - $.01 par value, $1,000 per share liquidation preference; 65,524.41 shares authorized, issued and outstanding including dividends in arrears of $9,485,924 and $4,663,471 at December 28, 1997 and December 29, 1996, respectively	26,816,584	21,994,131
Common stock (voting) - $.01 par value; 2,154,000 shares authorized, and 107,700 shares issued and outstanding	1,077	1,077
Additional paid-in capital - common stock	9,185,772	9,185,772
Accumulated deficit (NOTE 1)	(23,147,714)	(13,607,635)
Total stockholders' equity	12,855,719	17,573,345
Total liabilities and stockholders' equity	$ 77,936,288	$ 82,153,823

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Busse Broadcasting Corporation

Consolidated Statements of Operations

	POST-EFFECTIVE DATE		
	FISCAL YEAR ENDED DECEMBER 28, 1997	FISCAL YEAR ENDED DECEMBER 29, 1996	FISCAL PERIOD FROM MAY 3, 1995 THROUGH DECEMBER 31, 1995
Net revenue from continuing operations	$ 18,971,040	$ 19,274,171	$ 11,358,095
Operating costs and expenses, excluding depreciation and amortization	8,427,942	8,407,679	5,151,550
Depreciation	1,871,079	1,853,863	1,359,448
Amortization of intangibles and excess reorganization value	3,931,304	3,859,999	2,607,858
Total operating costs and expenses of continuing operations	14,230,325	14,121,541	9,118,856
Corporate expenses	1,523,674	1,571,772	870,072
Income from continuing operations	3,217,041	3,580,858	1,369,167
Other income (expense) from continuing operations:			
Interest expense	(8,340,845)	(8,400,340)	(5,794,343)
Interest income	445,072	287,793	836,119
Loss on disposition of assets	(113,148)	(77,982)	(3,626)
Other income	74,254	23,922	4,522
Other expense from continuing operations	(7,934,667)	(8,166,607)	(4,957,328)
Loss from continuing operations before income taxes	(4,717,626)	(4,585,749)	(3,588,161)
(Provision) benefit for income taxes (NOTE 8)			
Current - Federal	--	--	(1,673,929)
Current - State	--	--	(41,000)
Deferred - Federal	--	--	2,069,000
Deferred - State	--	--	517,000
Income taxes benefit	--	--	871,071
Loss from continuing operations	(4,717,626)	(4,585,749)	(2,717,090)
Discontinued operations:			
Income from operations net of applicable income tax provision of $53,000 for the fiscal period from May 3, 1995 through December 31, 1995 (NOTE 4)	--	220,468	67,843
Loss on disposal of operations (NOTE 4)	--	(1,929,636)	--
	--	(1,709,168)	67,843
Net loss	(4,717,626)	(6,294,917)	(2,649,247)
Charges to stockholders' equity for Series A preferred stock dividends in arrears	(4,822,453)	(4,663,471)	--
Net loss attributable to common stockholders	$ (9,540,079)	$(10,958,388)	$ (2,649,247)
Per common share (basic and diluted):			
Loss from continuing operations	$ (43.80)	$ (42.58)	$ (25.13)
Income (loss) from discontinued operations	--	(15.87)	.63
Series A preferred stock dividends in arrears	(44.78)	(43.30)	--
Net loss	$ (88.58)	$ (101.75)	$ (24.50)
Weighted average common shares outstanding	107,700	107,700	108,126

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Busse Broadcasting Corporation

Consolidated Statements of Operations (continued)

	PRE-EFFECTIVE DATE FISCAL PERIOD FROM JANUARY 2, 1995 THROUGH MAY 2, 1995
Net revenue	$ 14,510,895
Operating costs and expenses, excluding depreciation and amortization	8,509,977
Depreciation	1,307,271
Amortization of intangibles and excess reorganization value	468,801
Total operating costs and expenses	10,286,049
Corporate expenses	290,960
Income from operations	3,933,886
Other income (expense):	
Interest expense	(7,472,473)
Interest income	85,525
Gain on disposition of assets	2,133
Other income	144,198
Other expense	(7,240,617)
	(3,306,731)
Reorganization items:	
Gain on restructuring transaction (NOTE 1)	103,810,917
Legal and professional fees	(2,660,510)
Income before income taxes and extraordinary item	97,843,676
(Provision) benefit for income taxes (NOTE 8)	
Current - State	(100,000)
Deferred-Benefit	2,318,000
	2,218,000
Income before extraordinary item	100,061,676
Extraordinary item	
Debt forgiveness related to restructuring transactions (NOTE 1)	46,479,605
Net income	$ 146,541,281
Per common share (basic and diluted):	
Income before extraordinary item	$ 990.71
Extraordinary item	460.19
Net income	$ 1,450.90
Weighted average common shares outstanding	101,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Busse Broadcasting Corporation

Consolidated Statements of Stockholders' Equity (Deficit) (NOTE 1)

	PREFERRED STOCK				PRE-EFFECTIVE DATE SHARES CLASS A
	PRE-EFFECTIVE DATE SHARES	AMOUNT	POST-EFFECTIVE DATE SHARES	AMOUNT	
Balance January 1, 1995	30	$ 6,309,000	--	$ --	1,000
Net income for the period from January 2, 1995 through May 2, 1995	--	--	--	--	--
Transactions pursuant to Plan of Reorganizations:					
Cancellation of pre-effective date preferred stock	(30)	(6,309,000)	--	--	--
Cancellation of pre-effective date common stock	--	--	--	--	(1,000)
Issuance of post-effective date common stock and adoption of fresh start reporting	--	--	--	--	--
Balance May 3, 1995	--	--	--	--	--
Net loss for the period from May 3, 1995 through December 31, 1995	--	--	--	--	--
Purchase and cancellation of Company's stock	--	--	--	--	--
Balance December 31, 1995	--	--	--	--	--
Issuance of Series A Preferred stock in exchange for junior subordinated pay-in-kind notes on January 12, 1996	--	--	65,524.41	17,330,660	--
Net loss	--	--	--	--	--
Provisions for dividends in arrears	--	--	--	4,663,471	--
Balance December 29, 1996	--	--	65,524.41	21,994,131	--
Net loss	--	--	--	--	--
Provisions for dividends in arrears	--	--	--	4,822,453	--
Balance December 28, 1997	--	$ --	65,524.41	$26,816,584	--

	COMMON STOCK				
	PRE- EFFECTIVE DATE SHARES				
	CLASS B	AMOUNT	ADDITIONAL PAID-IN CAPITAL	POST-EFFECTIVE DATE SHARES	AMOUNT
Balance January 1, 1995	100,000	$ 1,010	$ 1,008,990	--	$ --
Net income for the period from January 2, 1995 through May 2, 1995	--	--	--	--	--
Transactions pursuant to Plan of Reorganizations:					
Cancellation of pre-effective date preferred stock	--	--	--	--	--
Cancellation of pre-effective date common stock	(100,000)	(1,010)	(1,008,990)	--	--
Issuance of post-effective date common stock and adoption of fresh start reporting	--	--	--	110,000	1,100
Balance May 3, 1995	--	--	--	110,000	1,100
Net loss for the period from May 3, 1995 through December 31, 1995	--	--	--	--	--
Purchase and cancellation of Company's stock	--	--	--	(2,300)	(23)

Balance December 31, 1995	--	--	--	107,700	1,077
Issuance of Series A Preferred stock in exchange for junior subordinated pay-in-kind notes on January 12, 1996	--	--	--	--	--
Net loss	--	--	--	--	--
Provisions for dividends in arrears	--	--	--	--	--
Balance December 29, 1996	--	--	--	107,700	1,077
Net loss	--	--	--	--	--
Provisions for dividends in arrears	--	--	--	--	--
Balance December 28, 1997	--	$ --	$ --	107,700	$ 1,077

	COMMON STOCK		
	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Balance January 1, 1995	$ --	$(144,657,381)	$(143,647,381)
Net income for the period from January 2, 1995 through May 2, 1995	--	146,541,281	146,541,281
Transactions pursuant to Plan of Reorganizations:			
Cancellation of pre-effective date preferred stock	--	6,309,000	6,309,000
Cancellation of pre-effective date common stock	--	1,010,000	--
Issuance of post-effective date common stock and adoption of fresh start reporting	9,201,800	(9,202,900)	--
Balance May 3, 1995	9,201,800	--	9,202,900
Net loss for the period from May 3, 1995 through December 31, 1995	--	(2,649,247)	(2,649,247)
Purchase and cancellation of Company's stock	(16,028)	--	(16,051)
Balance December 31, 1995	9,185,772	(2,649,247)	6,537,602
Issuance of Series A Preferred stock in exchange for junior subordinated pay-in-kind notes on January 12, 1996	--	--	17,330,660
Net loss	--	(6,294,917)	(6,294,917)
Provisions for dividends in arrears	--	(4,663,471)	--
Balance December 29, 1996	9,185,772	(13,607,635)	17,573,345
Net loss	--	(4,717,626)	(4,717,626)
Provisions for dividends in arrears	--	(4,822,453)	--
Balance December 28, 1997	$ 9,185,772	$ (23,147,714)	$ 12,855,719

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Busse Broadcasting Corporation

Consolidated Statements of Cash Flows

	POST-EFFECTIVE DATE			PRE-EFFECTIVE DATE
	FISCAL YEAR ENDED DECEMBER 28, 1997	FISCAL YEAR ENDED DECEMBER 29, 1996	FISCAL PERIOD FROM MAY 3, 1995 THROUGH DECEMBER 31, 1995	FISCAL PERIOD FROM JANUARY 2, 1995 THROUGH MAY 2, 1995
OPERATING ACTIVITIES				
Net income (loss)	$ (4,717,626)	$ (6,294,917)	$ (2,649,247)	$ 146,541,281
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	5,802,383	5,996,936	4,123,242	1,776,072
Loss on sale of discontinued operations	--	1,929,636	--	--
Noncash interest expense	454,675	445,712	3,104,661	6,743,397
Amortization of deferred financing costs	617,406	611,433	88,043	--
Program payments (over) under program amortization	(2,568)	(16,891)	(15,582)	20,063
Loss (gain) on disposition of property, plant and equipment	113,148	92,498	49,067	(2,133)
Deferred compensation expense	351,999	346,260	244,193	--
Pension expense (income)	63,060	129,507	(229,964)	79,926
Gain on pension plan curtailment (NOTE 7)	(344,782)	--	--	--
Deferred income tax benefit (NOTE 8)	--	--	(2,600,000)	(2,318,000)
Reorganization items:				
Gain on restructuring transactions (NOTE 1)	--	--	--	(103,810,917)
Debt forgiveness relating to restructuring transactions (NOTE 1)	--	--	--	(46,479,605)
Change in current assets and liabilities:				
Receivables	44,580	(299,044)	(515,122)	596,984
Inventories and other current assets	(32,923)	522,037	62,914	185,403
Accounts payable and accrued expenses	31,490	384,374	1,476,721	(378,690)
Income taxes payable	(8,143)	(30,817)	58,817	--
Contribution to pension plan trust (NOTE 7)	(500,000)	--	--	--
Net cash provided by operating activities	1,872,699	3,816,724	3,197,743	2,953,781
INVESTING ACTIVITIES:				
Proceeds from sale of television station, net	--	--	98,979,532	--
Capital expenditures	(883,599)	(1,983,417)	(656,772)	(497,728)
Proceeds from disposition of assets	697	64,432	35,459	4,089
(Increase) decrease in other assets	(4,903)	(24,298)	(34,364)	295
Increase in intangibles	--	--	(297,636)	--
Cash proceeds from sale of Winnebago Color Press net of expenses and cash sold ($285,101) (NOTE 4)	--	2,854,277	--	--
Net cash provided by (used in) investing activities	(887,805)	910,994	98,026,219	(493,344)
FINANCING ACTIVITIES:				
Purchase and cancellation of Company's stock	--	--	(16,051)	--
Payments on indebtedness	--	(35,391,571)	(121,658,147)	(4,641,023)
Proceeds from issuance of Senior Secured Notes	--	--	60,000,909	--
Payment of deferred financing costs	--	(240,301)	(2,811,539)	--
Net cash used in financing activities	--	(35,631,872)	(64,484,828)	(4,641,023)
Net increase (decrease) in cash and cash equivalents	984,894	(30,904,154)	36,739,134	(2,180,586)
Cash and cash equivalents at beginning of period	7,989,805	38,893,959	2,154,825	4,335,411
Cash and cash equivalents at end of period	$ 8,974,699	$ 7,989,805	$ 38,893,959	$ 2,154,825
Supplemental disclosure of cash flow information:				
Interest paid during the period	$ 7,268,764	$ 7,303,035	$ 1,313,943	$ 742,020
Income taxes paid during the period	$ --	$ --	$ 1,723,112	$ 100,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Busse Broadcasting Corporation

Notes to Consolidated Financial Statements

December 28, 1997

1. BASIS OF PRESENTATION

The consolidated financial statements include Busse Broadcasting Corporation and its wholly owned subsidiaries (collectively BBC or the Company) engaged in the following businesses:

TELEVISION:		
KOLN/KGIN-TV	CBS Affiliate	Lincoln/Grand Island, Nebraska
WEAU-TV	NBC Affiliate	Eau Claire/La Crosse, Wisconsin
WWMT-TV	CBS Affiliate	Kalamazoo/Grand Rapids, Michigan (Sold June 1, 1995)
PRINTING:		
Winnebago Color Press		Menasha, Wisconsin (Sold December 27, 1996)

All intercompany accounts and transactions have been eliminated in consolidation.

The Company and its wholly-owned subsidiary filed voluntary petitions for a joint plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Plan") on March 10, 1995. On April 20, 1995 the United States Bankruptcy Court for the district of Delaware (the "Court") confirmed the Plan, such Plan became effective May 3, 1995 (the "Effective Date") and the respective Chapter 11 cases were closed by the Court on September 21, 1995.

The Plan provided for, among other things, the following as of the Effective Date:

Creditors under the Bank Credit Agreement received, on a pro-rata basis, immediately prior to the Effective Date $4,600,000 of cash, (plus interest of $23,000) and on the Effective Date received on a pro-rata basis, in exchange, on a dollar for dollar basis, for 100% of the aggregate claims held against the Company, Senior Secured Credit Agreement Notes (the "Credit Agreement") in the aggregate principal amount of $10,400,000;

In exchange, on a dollar for dollar basis, for 100% of the aggregate claims held against the Company, holders of the Zero Coupon Senior Notes (for their aggregate claim as of May 2, 1995), Working Capital Advances, Subordinated Note and Senior Subordinated Debentures (for their aggregate claims as of March 9, 1995) received, on a pro-rata basis, $109,993,000 principal amount of 7.38% Secured Senior Subordinated Pay-in-Kind Notes due December 31, 2014 (the "Senior PIK Notes") and new 7.38% Junior Subordinated Pay-in-Kind Notes (the "Junior PIK Notes") due December 31, 2014 in the aggregate principal amount of $97,021,000 and cash in the aggregate amount of $14,806 in lieu of fractional securities;

1. BASIS OF PRESENTATION (CONTINUED)

Holders of the Zero Coupon Senior Notes also received, on a pro-rata basis, 100% of the new common stock of the restructured Company. As a result of the Plan, on May 3, 1995, 98% of the new common stock was held by a group of affiliated investment funds (the "South Street Investment Funds"). On June 16, 1995, the Company purchased and retired the 2,300 shares of common stock not controlled by the South Street Investment Funds;

Substantially all other obligations of the Company, including trade payables and other general unsecured obligations were unaffected by the plan;

All rights and claims of the holders of the Company's then outstanding capital stock (or interests to acquire such stock) were extinguished; and

The appointment of new Board of Directors two of which are executive officers of Granite Broadcasting Corporation (see Note 5).

The American Institute of Certified Public Accountants issued Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"), which provides guidance for financial reporting when companies operate under and emerge from the protection of Chapter 11. SOP 90-7 requires that if (a) the reorganization value of the company, as defined, was less than the total of all post-petition liabilities and pre-petition claims, and (b) the holders of voting shares immediately before confirmation of the Plan received less than fifty percent of the voting shares of the emerging entity, then Fresh Start Accounting must be adopted. Since the Company met both of these conditions, it adopted Fresh Start Accounting on the Effective Date. Fresh Start Accounting provides that liabilities be recorded at their fair values, based upon market interest rates at the Effective Date. In addition, assets are to be recorded based on an allocation of the reorganization value of the Company, which approximates fair market value, and any retained earnings or deficit balance is to be eliminated as of the Effective Date.

The reorganization value of the Company as of the Effective Date was based, in part, on the valuation information supplied to the bankruptcy court and, as discussed below and in Note 5, the net cash proceeds the Company expected to receive in conjunction with the sale of WWMT-TV. The reorganization value was allocated based on appraisals which were performed by independent, third-party appraisers and were based on traditional valuation methods used in the appraisal industry.

1. BASIS OF PRESENTATION (CONTINUED)

The Company determined the Fresh Start Accounting balances for its liabilities as follows:

Liabilities and indebtedness not impaired by the Plan were recorded at their historical balances;

Indebtedness retired or expected to be retired with the proceeds of the WWMT-TV sale was valued for financial reporting purposes at 100% of aggregate principal amount at the date of issuance and included $10,400,000 of Credit Agreement notes, $84,437,000 of Senior PIK Notes and $1,180,000 of Junior PIK Notes;

Indebtedness which the Company reasonably expected to refinance in the near future was valued for financial reporting purposes at 100% of aggregate principal amount at the date of issuance and included $25,556,000 of Senior PIK Notes and $40,000,000 of Junior PIK Notes;

Indebtedness which the Company did not anticipate refinancing on a current basis was recorded for financial accounting purposes at its discounted present value using a 17% discount rate which was indicative of market interest rates for similar securities at the Effective Date. Accordingly, $55,841,000 aggregate principal amount of Junior PIK Notes (the "Discounted Junior PIK Notes") were recorded at an initial balance of $9,390,000 as of May 3, 1995 and accrued interest for financial reporting purposes at 17%.

The adjustments to adopt Fresh Start Accounting resulted in a total gain on restructuring transactions of $150,290,522 in the accompanying consolidated statement of operations for the period from January 2, 1995 through May 2, 1995. The components of this gain are as follows:

Adjustments to assets and liabilities to reflect adoption of Fresh Start Accounting	$103,810,917
Debt forgiveness related to restructuring transactions (classified as an extraordinary item in the accompanying consolidated statement of operations)	46,479,605
Total gain on restructuring transactions	$150,290,522

1. BASIS OF PRESENTATION (CONTINUED)

Pursuant to the Plan, the Company did not accrue approximately $1.8 million of interest on certain of its Pre-Effective Date indebtedness for the period March 9, 1995 through the Effective Date.

In applying Fresh Start Accounting, the Company accounted for its interest in WWMT-TV (sold June 1, 1995) as an investment held for sale pursuant to the guidance of EITF Issue No. 87-11, "Allocation of Purchase Price to Assets to be Sold". As discussed more fully in Note 5, the Company valued the investment in WWMT-TV based on the expected sales proceeds, net of selling costs, the incremental cash generated during the holding period and interest charges relating to the debt to be retired with the net sale proceeds. The results of operations for WWMT-TV and the incremental interest on the debt to be retired with the net sale proceeds are not reflected in the accompanying Post-Effective Date consolidated statement of operations but rather were estimated in the original investment in WWMT-TV on the Effective Date.

As a result of the effectiveness of the Plan and the adoption of Fresh Start Accounting, the results for the fiscal years ended December 28, 1997 and December 29, 1996 and for the fiscal period from May 3, 1995 through December 31, 1995 are not comparable to any of the Company's fiscal periods ended on or prior to May 2, 1995 and accordingly, Pre-Effective Date and Post-Effective Date financial statements and disclosures are presented on separate pages or are separated by a vertical line.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

TELEVISION PROGRAM CONTRACT RIGHTS

The rights to broadcast non-network programs are stated at cost less accumulated amortization. These costs are amortized based upon the usage of the programs under methods which generally result in straight-line amortization. The cost of program rights expected to be used within one year is classified as a current asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost net of accumulated depreciation. Depreciation is generally calculated on the straight-line method based on the following useful lives:

	POST-EFFECTIVE DATE	PRE-EFFECTIVE DATE
	YEARS	YEARS
Leasehold and land improvements	5-20	5-10
Buildings	20	30
Machinery and equipment	1-20	10-20
Vehicles	1-3	3-7

DEFERRED FINANCING COSTS

Deferred financing costs relate to costs incurred with the issuance of debt securities and are being amortized over the respective lives of the debt issues utilizing the weighted average debt outstanding method. Accumulated amortization at December 28, 1997 and December 29, 1996 was $1,316,882 and $699,476, respectively.

INTANGIBLE ASSETS AND EXCESS REORGANIZATION VALUE

On the Effective Date the amounts allocated to intangible assets and excess reorganization value represent the excess of the reorganization value over the amounts allocated to the net tangible and all other intangible assets as of the Effective Date. These amounts are being amortized on a straight-line basis over 15 years. Accumulated amortization at December 28, 1997 and December 29, 1996 was $10,399,161 and $6,467,857, respectively.

Prior to the Effective Date, goodwill and amounts allocated to FCC licenses and network contracts were amortized on a straight-line basis over forty years. The cost of other intangible assets with determinable economic lives was charged to operations based on their respective economic lives, under methods that generally resulted in accelerated amortization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company records impairment losses on long-lived assets used in operations, including excess reorganization value, when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

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.

ADVERTISING

Advertising costs are expensed as incurred and totaled $239,689, $222,780 and $489,243 for fiscal 1997, 1996 and 1995, respectively.

REPORTING PERIOD

The Company's fiscal year is the 52/53 week period ending on the Sunday nearest December 31.

3. SUPPLEMENTARY BALANCE SHEET INFORMATION

The composition of certain balance sheet information follows:

	DECEMBER 28, 1997	DECEMBER 29, 1996
Receivables:		
Trade	$3,715,713	$3,786,502
Other	149,597	123,388
	3,865,310	3,909,890
Less allowance for doubtful accounts	(60,900)	(60,900)
	$3,804,410	$3,848,990

Busse Broadcasting Corporation

Notes to Consolidated Financial Statements (continued)

3. SUPPLEMENTARY BALANCE SHEET INFORMATION (CONTINUED)

	DECEMBER 28, 1997	DECEMBER 29, 1996
Other current assets:		
Program contract rights (NOTE 11)	$ 699,405	$ 675,719
Prepaid expenses and other	213,404	180,481
Prepaid pension costs (NOTE 7)	430,674	--
	$ 1,343,483	$ 856,200
Property, plant and equipment:		
Land, land improvements, buildings and improvements	$ 2,676,990	$ 2,666,744
Machinery and equipment	13,908,889	13,285,024
Office equipment	953,501	854,225
Vehicles	465,895	443,995
Construction in progress	67,767	175,931
	18,073,042	17,425,919
Accumulated depreciation	(4,846,975)	(3,098,527)
	$ 13,226,067	$ 14,327,392
Deferred charges and other assets:		
Deferred financing costs	$ 1,734,958	$ 2,352,364
Other	76,851	71,948
	$ 1,811,809	$ 2,424,312
Accounts payable and accrued expenses:		
Accounts payable	$ 245,761	$ 318,639
Program contracts payable (NOTE 11)	590,865	569,747
Accrued interest	1,514,326	1,514,326
Accrued long term incentive plan obligations (NOTE 7)	942,452	--
Other accrued expenses	868,308	772,083
	$ 4,161,712	$ 3,174,795
Other long-term liabilities:		
Accrued pension plan obligations (NOTE 7)	$ --	$ 351,048
Accrued long term incentive plan obligations (NOTE 7)	--	590,453
	$ --	$ 941,501

4. DISCONTINUED OPERATIONS--SALE OF WINNEBAGO COLOR PRESS

On December 27, 1996, the Company sold substantially all of the assets of its Winnebago Color Press ("Winnebago") division to Winnebago Color Press, Inc., an entity owned in part by Mr. Lawrence A. Busse, the Chairman and Chief Executive Officer of BBC for $3,327,856 in cash plus the assumption of certain liabilities totaling $369,638 and, after payment of certain selling costs, retained net proceeds of $3,242,235 (approximately $3,207,000 after payment of $35,000 of certain obligations under the Company's Long Term Incentive Plan, see Note 7). The Company received $102,857 of the sale proceeds in February 1997; such amount was recorded as a receivable as of December 29, 1996. The Company's utilization of such net proceeds is restricted under the terms of a certain indenture relating to the Company's 11 5/8% Senior Secured Notes due October 15, 2000 (see Note 6). As part of the transaction the Company received an opinion from an investment banking firm that the transaction was fair to the Company and its stockholders. Winnebago was the Company's only operation within the printing segment and accordingly, because of the sale, this segment has been presented as a discontinued operation. The loss on the transaction of $1,929,636 is classified as a loss on disposal of discontinued operations in the accompanying consolidated statements of operations for the year ended December 29, 1996 and the operations of Winnebago for the year ended December 29, 1996 and the period from May 3, 1995 through December 31, 1995 are classified as income from discontinued operations. The net revenues of Winnebago included in the consolidated statements of operations were $6,896,484 and $4,312,605 for the year ended December 29, 1996 and the period from May 3, 1995 through December 31, 1995, respectively.

Corporate expenses and interest expense, net of interest income, have been allocated to income from discontinued operations only if such expenses are directly attributable to Winnebago. For the year ended December 29, 1996 and for the period from May 3, 1995 through December 31, 1995 the corporate expenses allocated to income from discontinued operations were $27,233 and $7,767, respectively, and $12,711 and $3,611, respectively, for interest expense net of interest income.

5. SALE OF WWMT-TV

On February 1, 1995, the Company formed a wholly-owned subsidiary, WWMT, Inc. [renamed Busse Management Inc. ("BMI") on May 3, 1995 and further renamed KOLN/KGIN, Inc. on October 20, 1995 (see Note 9)], and subsequently contributed substantially all of the assets and current liabilities of television station WWMT-TV, Kalamazoo, Michigan, to the subsidiary. On February 20, 1995, the Company and WWMT, Inc. entered into an agreement with Granite Broadcasting Corporation ("Granite") to sell substantially all of the assets of WWMT for $95,000,000 plus the net working capital as defined therein and Granite's assumption of certain liabilities. The sale was completed as of the opening of business on June 1, 1995. Gross proceeds, approximating $99,400,000 from the sale were used, in part, to repay the outstanding Credit Agreement ($10,400,000) and purchase or redeem (at 100% of aggregate principal value plus accrued interest) certain Senior PIK Notes ($84,437,000 aggregate principal value), Junior PIK Notes ($1,180,000 aggregate principal value) and 2,300 shares of common stock ($16,051 purchase price).

In applying Fresh Start Accounting the Company accounted for its interest in WWMT-TV as an investment held for sale pursuant to the guidance of EITF Issue No. 87-11, "Allocation of Purchase Price to Assets to be Sold". The Company valued the investment in WWMT-TV based on the expected sales proceeds, net of selling costs, the incremental cash to be generated during the holding period and interest charges relating to the debt to be retired with the net sale proceeds as follows:

Expected gross cash proceeds from the sale of WWMT-TV	$99,420,357
Plus cash generated from operations from May 3, 1995 through May 31, 1995	498,637
Less expenses incurred to sell WWMT-TV	(316,969)
Less interest on the debt to be retired	(622,493)
Net investment in WWMT-TV as of May 3, 1995	$98,979,532

Two of the three members of the board of directors of the Company are executive officers of Granite. An individual affiliated with the South Street Investment Funds is one of the nine members of the board of directors of Granite and holds equity interests in Granite (see Note 1).

6. DEBT

Long-term debt is summarized as follows:

	DECEMBER 28, 1997	DECEMBER 29, 1996
Senior Secured Notes, net of unamortized original issue discount of $1,608,143 and $2,062,818 at December 28, 1997 and December 29, 1996, respectively	$60,918,857	$60,464,182

On October 26, 1995 the Company issued $62,527,000 principal amount of 11 5/8% Senior Secured Notes due October 15, 2000 ("Senior Notes") at a price of 95.96% of the aggregate principal amount thereof and received net proceeds of $58,125,099 after payment of underwriting discounts and commissions of $1,875,810.

A portion of the net proceeds from the issuance of the Senior Notes were used by the Company on October 26, 1995 to redeem all of the outstanding 7.38% Secured Senior Subordinated Pay-in-Kind Notes, at 100% of the principal amount thereof plus accrued and unpaid interest thereon, for an aggregate cost of $26,469,445. The remaining net proceeds of $31,655,654 were deposited in an Escrow Account maintained by the trustee of the Senior Notes and used by the Company on January 12, 1996 to effect, together with cash of approximately $3,193,409 and the interest earned on the funds deposited in the Escrow Account, the Junior Subordinated Note Redemption, without penalty or premium, at 100% of the principal amount of the Junior Subordinated Notes to be redeemed for cash, plus accrued interest thereon to the date of redemption, at a cost of $35,241,061. The outstanding principal amount of the Junior Subordinated Notes immediately prior to the Junior Subordinated Note Redemption was $100,765,475. The balance of the Junior Subordinated Notes not redeemed for cash in the Junior Subordinated Note Redemption was redeemed for 65,524.4135 shares of the Company's Series A Preferred Stock, at a rate of one share for each $1,000 aggregate principal amount of, and accrued and unpaid interest on, such Junior Subordinated Notes.

Interest on the Senior Notes is payable semiannually in arrears on April 15 and October 15 of each year. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

6. DEBT (CONTINUED)

The Senior Notes are senior in right of payment to all existing and future subordinated indebtedness of the Company and rank pari passu with all existing and future senior indebtedness of the Company. The Senior Notes are secured by all of the Company's equity interests in, and certain intercompany indebtedness of, its subsidiaries, including the subsidiaries which hold the FCC licenses of the Company's two television stations, certain agreements and contract rights related to such television stations (including network affiliation agreements), certain machinery, equipment and fixtures, certain general intangibles, mortgages on substantially all of the owned and certain of the leased real property of the Company and its subsidiaries, and proceeds thereof. In addition, the Company's subsidiaries (collectively the "Guarantors") have fully and unconditionally guaranteed the Senior Notes on a joint and several and senior secured basis and each such guarantee ranks senior in right of payment to all existing and future subordinated indebtedness of such Guarantor and ranks pari passu with all existing and future senior indebtedness of such Guarantor.

The Senior Notes may not, except in certain circumstances, be redeemed by the Company before October 15, 1998. Thereafter, the Senior Notes will be subject to redemption at the option of the Company, in whole or in part, at the redemption prices of 106% and 103% (expressed as percentages of the face amount of the Senior Notes), plus accrued and unpaid interest to the date of redemption, if redeemed during the twelve-month period beginning on October 15, 1998 and 1999, respectively.

The indenture relating to the Senior Notes (the "Indenture") required that the net proceeds, as defined by the Indenture and which are net of the payment made under the long-term incentive plan, from the sale of Winnebago ($3,207,000) be utilized to (i) offer to redeem Senior Notes at 100% of their accreted value on the date of redemption, plus accrued interest, or (ii) to make investments in or acquire properties and assets directly related to television and/or radio broadcasting as specified in the Indenture. In accordance with the Indenture, on February 12, 1997 the Company commenced an offer to purchase up to $3,207,000 of aggregate principal amount of Senior Notes with the net proceeds of the sale of Winnebago. The Company's offer to purchase expired, by its terms, on March 14, 1997 with no Senior Notes having been tendered by their respective holders and, consequently, no Senior Notes were purchased by the Company. Under the terms of the Indenture, the Company may only utilize the $3,207,000 and the interest thereon to make investments in or acquire properties and assets directly related to television and/or radio broadcasting. Such net proceeds and the interest earnings thereon are held by the Indenture Trustee as collateral proceeds and are classified as cash equivalents on the accompanying consolidated balance sheet.

6. DEBT (CONTINUED)

The Indenture contains various convenants and restrictions on the Company and its subsidiaries including, but not limited to, incurring additional indebtedness, issuing certain disqualified capital stock, making dividend payments or certain other restricted payments, consummating certain asset sales, incurring liens, entering into certain transactions with affiliates, creating or acquiring additional subsidiaries, merging or consolidating with any other person, or selling, assigning, transferring, leasing, conveying or otherwise disposing of all or substantially all of the assets of the Company or its subsidiaries. Upon a change of control, as defined in the Indenture, the Company is required to offer to repurchase all or any portion (equal to $1,000 or an integral multiple thereof) of the Senior Notes at a purchase price in cash equal to 101% of the accreted value thereof, plus accrued and unpaid interest to the date of repurchase in accordance with the terms of the Indenture. Consumation of the Stock Purchase Agreement (see Note 13) will constitute a change of control, as defined in the Indenture.

The Indenture does not restrict the ability of a subsidiary to pay dividends or make loans or advances to the Company.

It was not practicable to estimate the fair value of the Company's long-term debt securities because of a lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

7. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PLAN

The Company has a noncontributory defined benefit pension plan (the "Pension Plan") covering approximately 129 full-time employees, 15 retirees receiving benefits and 90 separated vested participants. The benefits are based on length of service, age and the employee's compensation.

On July 1, 1997 the Company amended its defined benefit plan to freeze all benefit and service accruals thereunder and to terminate, subject to governmental approval, the Pension Plan effective as of September 28, 1997. The Company has recorded a gain of $344,782 for the year ended December 28, 1997 for the curtailment of the Pension Plan. Such gain is included as an offset to operating costs and expenses in the consolidated statement of operations. Additional charges or gains, if any, for the settlement of the Pension Plan will be recorded upon final settlement of the Pension Plan obligations. Termination and settlement for the Pension Plan are subject to various government agency approvals and the Company does not currently anticipate such settlements to occur prior to the second half of fiscal 1998.

7. EMPLOYEE BENEFIT PLANS (CONTINUED)

Applications for determination and notification with the Pension Benefit Guaranty Corporation (the "PBGC") and Internal Revenue Service (the "IRS") were filed pursuant to governmental regulations on January 22, 1998. The Company anticipates that the IRS will rule that the Pension Plan qualifies under Section 401(a) of the Internal Revenue Code and, therefore, will not be subject to tax under present income tax laws. Upon termination, all participants will become fully vested and will be able to accept their settlement benefit as an annuity, lump sum payment or roll-over of benefits into the Company's 401(k) Savings Plan.

In anticipation of the settlement of the Pension Plan, in September 1997 the Company contributed $500,000 to the Pension Plan's trust fund.

The Company currently anticipates that the present value of all vested benefit obligations will exceed the fair value of the pension plan trust assets at the future settlement date and, as such, the Company expects to be required to fund such difference, the "Settlement Funding". The settlement date cannot be determined until the IRS and PBGC approve the Company's termination applications. Any Settlement Funding to the pension trust by the Company will not be calculable as a sum certain until the settlement date is established according to the applicable governmental regulations since such calculations are dependent upon certain governmentally prescribed settlement interest rates in effect 60 days prior to the settlement date.

The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company may determine to be appropriate from time to time, including any contributions necessary to effect the plan settlement. The components of pension cost were as follows:

	1997	1996	1995
Service cost--benefit earned during period	$ 74,150	$ 134,377	$ 204,706
Interest cost on projected benefit obligation	162,453	154,256	180,362
Actual return on plan assets	(239,265)	(183,951)	(227,067)
Net amortization and deferral	65,722	24,825	19,824
Net periodic pension cost	$ 63,060	$ 129,507	$ 177,825

7. EMPLOYEE BENEFIT PLANS (CONTINUED)

Assumptions used in the accounting for the defined benefit plan were:

	1997	1996	1995
Weighted average discount rates	7.5%	7.25%	7.25%
Rates of increase in compensation levels	5.0%	5.0%	5.0%
Expected long-term rate of return on assets	8.0%	8.0%	8.0%

The following table sets forth the funded status and amounts recognized in the Company's consolidated balance sheet:

	DECEMBER 28, 1997	DECEMBER 29, 1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	$2,426,263	$2,149,278
Accumulated benefit obligation	$2,426,263	$2,175,809
Projected benefit obligation	2,426,263	2,356,168
Plan assets at fair value, primarily group annuity contracts and U.S. corporate stocks and bonds	2,729,263	2,103,190
Projected benefit obligation in excess of (less than) plan assets	(303,000)	252,978
Unrecognized gain	(127,674)	(15,561)
Unrecognized prior service cost	--	113,631
Net pension (asset) liability recognized in the consolidated balance sheets	$ (430,674)	$ 351,048

Effective June 1, 1995 the Company curtailed the portion of the defined benefit pension plan related to the WWMT-TV employees and recognized an associated gain of $327,866 at that time.

DEFINED CONTRIBUTION PLAN

The Company has 401(k) plans available to substantially all employees with at least 1,000 hours of service annually. The Company matches 50% of the first 2% of the employee contributions.

7. EMPLOYEE BENEFIT PLANS (CONTINUED)

In addition, for the period from September 29, 1997 through December 28, 1997 the Company accrued a voluntary profit sharing contribution for each participant of the greater of $75 or the product of the applicable percentage set forth below times the participant's compensation during the period from September 29, 1997 through December 28, 1997:

YEARS OF VESTING SERVICE	PERCENTAGE
Less than 5	1.0%
5 to 9	1.5%
10 to 14	3.0%
15 to 19	5.0%
20 to 24	6.0%
25 to 29	7.0%
30 or more	7.5%

Funding of the voluntary profit sharing contribution will occur in fiscal 1998. Total plan expense was $64,476, $71,673, $31,247, and $57,718 for fiscal years 1997 and 1996 and the periods from May 3, 1995 through December 31, 1995, and January 2, 1995 through May 2, 1995, respectively.

LONG TERM INCENTIVE PLAN

The Company maintains a Long Term Incentive Plan (the "LTIP") for certain key executives (the "Participants"). As of December 28, 1997 the aggregate maximum amount which the Company may become obligated to pay under the LTIP is $1,065,000 and each Participants' allocated share of such amount is referred to as the "Maximum Amount". Participants vest ratably over thirty-six months beginning May 3, 1995 (the "Vested Amount"), and, subject only to continuous employment, the Maximum Amount is due and payable May 3, 1998. In the event of a Participant's death or disability the Participant will be entitled to payment of the Vested Amount as of such date. In certain instances involving changes in control of the Company or significant asset sales, a Participant may be entitled to the Maximum Amount. In conjunction with the sale of Winnebago, a former Participant was paid his Maximum Amount of $35,000. In the event of a Participant's termination of employment without "cause" or by such Participant for "good reason" (as defined therein) the Participant may be entitled to the discounted present value of the Maximum Amount according to a formula defined in the LTIP. If a Participant's employment with the Company terminates for "cause" (as defined therein), the Company's obligations with respect to that Participant terminate and no payments will be made to the Participant.

7. EMPLOYEE BENEFIT PLANS (CONTINUED)

The Company is not required to fund or otherwise segregate assets to be used to pay benefits under the LTIP. Under the LTIP the Company is precluded, with certain permitted exceptions, from paying cash dividends and entering into transactions with Affiliates (as defined therein) other than on fair and reasonable terms.

For fiscal years 1997 and 1996 and the fiscal period from May 3, 1995 through December 31, 1995, the Company expensed $351,999, $381,260 and $244,193, respectively, relating to the LTIP based on a 3 year straight line amortization.

8. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	DECEMBER 28, 1997	DECEMBER 29, 1996
Deferred tax liabilities -		
Property, plant and equipment basis differences	$ 3,176,000	$ 3,569,000
Deferred tax assets:		
Federal net operating loss carryforwards	20,876,000	20,706,000
State net operating loss carryforwards	3,177,000	2,747,000
Alternative minimum tax credit	1,615,000	1,615,000
Other	290,000	47,000
	25,958,000	25,115,000
Valuation allowances	(22,782,000)	(21,546,000)
	3,176,000	3,569,000
	$ --	$ --

Due to past and current operating losses, a valuation allowance has been recognized to offset the Company's net deferred tax assets.

8. INCOME TAXES (CONTINUED)

The benefit (provision) for income taxes from continuing operations is different from the amount computed by applying the U.S. statutory rate due to the following items:

	POST-EFFECTIVE DATE			PRE-EFFECTIVE DATE
	FISCAL YEAR ENDED		FISCAL PERIOD FROM MAY 3, 1995 THROUGH DECEMBER 31, 1995	FISCAL PERIOD FROM JANUARY 2, 1995 THROUGH MAY 2, 1995
	DECEMBER 28, 1997	DECEMBER 29, 1996		
Benefit (provision), from continuing operations and including extraordinary item, at federal statutory rate	$1,604,000	$1,559,000	$1,220,000	$(49,070,000)
State taxes	--	--	341,000	(1,358,000)
Change in valuation allowance	--	--	136,000	40,854,000
Unused current net operating loss	(267,000)	(71,000)	--	--
Gain on restructuring transactions and related items	--	--	--	11,762,000
Non-deductible amortization of intangible assets and excess reorganization values and other items	(1,337,000)	(1,488,000)	(825,929)	30,000
	$ --	$ --	$ 871,071	$ 2,218,000

The deferred (provision) benefit from continuing operations consists of the following:

	POST-EFFECTIVE DATE			PRE-EFFECTIVE DATE
	FISCAL YEAR ENDED		FISCAL PERIOD FROM MAY 3, 1995 THROUGH DECEMBER 31, 1995	FISCAL PERIOD FROM JANUARY 2, 1995 THROUGH MAY 2, 1995
	DECEMBER 28, 1997	DECEMBER 29, 1996		
Deferred tax benefits of temporary differences other than operating loss carryforwards	$ 636,000	$ 19,414,000	$30,220,000	$(39,562,000)
Benefits (use) of operating loss carryforwards	600,000	1,728,000	(27,770,000)	1,026,000
Change in valuation allowance	(1,236,000)	(21,142,000)	136,000	40,854,000
	$ --	$ --	$ 2,586,000	$ 2,318,000

8. INCOME TAXES (CONTINUED)

As of December 28, 1997 the Company had approximately $61,400,000 of federal net operating loss carryforwards ("NOL's") which begin to expire in 2005. As a result of the Plan (see Note 1) the Company elected treatment under Section 382 (1) (5) of the Internal Revenue Code, as amended. This treatment will allow the restructured Company to utilize, under certain restrictions, its NOL's to offset taxable income incurred after the Effective Date. The pending ownership change (see Note 13) will further restrict the Company's use of its NOL's under Section 382. Utilization of a portion of these NOL's are assumed in the Company's calculation of Post-Effective Date deferred taxes.

9. CORPORATE REORGANIZATION/SUBSIDIARY GUARANTORS

The Senior Notes are fully and unconditionally guaranteed, on a joint and several and senior secured basis, by all of the Company's direct and indirect subsidiaries, each of which is wholly-owned. To facilitate the collateral arrangements required by the Senior Notes the Company effected the following transactions on October 20, 1995:

1. The Federal Communication Commission ("FCC") licenses relating to the operation of WEAU-TV were conveyed to a wholly-owned subsidiary, WEAU License, Inc., in exchange for a $4,880,000 note payable to Busse Broadcasting Corporation and 100% of the stock of the subsidiary;

2. The assets and liabilities relating to the operation of KOLN/KGIN-TV were conveyed to a wholly-owned subsidiary, KOLN/KGIN, Inc. (formerly known as Busse Management, Inc. which was formerly known as WWMT, Inc.); and

3. KOLN/KGIN, Inc. conveyed the FCC licenses relating to the operation of KOLN/KGIN-TV to its wholly-owned subsidiary KOLN/KGIN License, Inc. in exchange for all of the capital stock of the subsidiary.

9. CORPORATE REORGANIZATION/SUBSIDIARY GUARANTORS (CONTINUED)

The following tables present summarized combined balance sheet and operating statement information for (i) KOLN/KGIN, Inc. (ii) KOLN/KGIN License, Inc. and (iii) WEAU License, Inc., or the respective prior operations as a division of the Company. Separate financial statements of KOLN/KGIN, Inc. immediately follow these notes to consolidated financial statements of Busse Broadcasting Corporation. Separate financial statements and other disclosures concerning KOLN/KGIN License, Inc. and WEAU License, Inc. have not been presented because management has determined that such financial statements would not be material to investors.

	POST-EFFECTIVE DATE	
	DECEMBER 28, 1997	DECEMBER 29, 1996
ASSETS		
Current assets	$ 3,377,708	$ 3,258,170
Non-current assets	45,525,932	49,097,117
	$48,903,640	$52,355,287
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities	$ 1,112,618	$ 1,090,989
Non-current liabilities	6,373,635	6,703,675
Shareholder's equity	41,417,387	44,560,623
Total liabilities and shareholder's equity	$48,903,640	$52,355,287

	POST-EFFECTIVE DATE			PRE-EFFECTIVE DATE
	FISCAL YEAR ENDED DECEMBER 28, 1997	FISCAL YEAR ENDED DECEMBER 29, 1996	FISCAL PERIOD FROM MAY 3, 1995 THROUGH DECEMBER 31, 1995	FISCAL PERIOD FROM JANUARY 2, 1995 THROUGH MAY 2, 1995
Net revenue	$12,310,713	$11,926,061	$ 6,657,481	$ 3,489,390
Total operating costs and expenses	10,325,586	9,937,965	6,345,213	2,393,360
Income from operations	1,985,127	1,988,096	312,268	1,096,030
Reorganization item--gain on restructuring transaction	--	--	--	34,831,263
Net income (loss)	(3,143,236)	(2,903,328)	(1,727,698)	36,308,787

10. CAPITAL STOCK

On January 12, 1996 the Company amended its articles of incorporation to revise its authorized shares of capital stock as discussed below.

COMMON STOCK

The authorized common stock of the Company consists of 2,154,000 shares, of which 107,700 shares are issued and outstanding. Each share of Common Stock has an equal and ratable right to receive dividends when and as declared by the Board of Directors of the Company out of assets legally available therefor. The declaration and payment of cash dividends on Common Stock are restricted by the provisions of the Indenture and the LTIP. In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock would be entitled to share ratably in the assets available for distribution after payments to creditors and liquidation preference payments to holders of the Series A Preferred Stock.

SERIES A PREFERRED STOCK

The authorized preferred stock of the Company consists of 65,524.4135 shares, all of which are issued and outstanding. Dividends on the Series A Preferred Stock accrue at an annual rate of $73.80 per share until such shares are redeemed or converted, whether or not any funds are legally available therefor. Such dividends are payable only upon the conversion of the Series A Preferred Stock into Common Stock or the redemption thereof, unless any Senior Notes are then outstanding or if such payment is then prohibited by any other debt instruments of the Company or applicable law. In the event that payment of any accrued dividends is not so permitted, such dividends will remain an obligation of the Company and be payable at the earliest date on which both (i) no Senior Notes remain outstanding and (ii) such payment is not prohibited by the other debt instruments of the Company or by applicable law.

In the event of any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, any holder of the Series A Preferred Stock will, for each share of Series A Preferred Stock, be entitled to receive a distribution of $1,000, plus any accrued and unpaid dividends, out of the assets of the Company prior to any distribution of assets with respect to any other shares of capital stock of the Company as a result of such liquidation, distribution or winding-up of the Company.

10. CAPITAL STOCK (CONTINUED)

Each share of Series A Preferred Stock may be converted at any time at the option of the holder into fully paid, nonassessable shares of Common Stock at the rate of 31.22958299 shares of Common Stock per share of Series A Preferred Stock, except that, if the Series A Preferred Stock is called for redemption, the conversion right will terminate at the close of business on the date fixed for redemption. Provision will be made for adjustment of the conversation rate, under certain conditions, in order to protect the conversion rights against dilution.

The Series A Preferred Stock is redeemable at the option of the Company at any time, in whole or in part, out of funds legally available therefor, at a per share redemption price equal to the per share liquidation preference per share ($1,000), plus in each case an amount equal to accrued and unpaid dividends, if any, to (and including) the redemption date, whether or not declared.

The holders of the Series A Preferred Stock have no voting rights except to the extent required by the Delaware General Corporation Law and the Series A Preferred Stock is entitled to no preemptive rights.

11. COMMITMENTS

The Company has entered into contracts to purchase rights to air certain programs at future dates. The Company records these contracts as assets and corresponding liabilities when the license period begins, which totaled $1,017,375, $969,630 and $959,010 in fiscal 1997, 1996 and 1995, respectively. The aggregate amount of these contracts entered into but not yet recorded at December 28, 1997 is approximately $3,031,795.

12. BUSINESS SEGMENTS

On December 27, 1996 the Company sold substantially all of the assets of its printing segment, Winnebago Color Press. Because of this sale, the Company now operates only in the television segment. For the year ended December 29, 1996 and the period from May 3, 1995 through December 31, 1995, the loss on the sale of the printing segment and its results of operations have been included as discontinued operations in the accompanying respective statements of operations (see Note 4).

12. BUSINESS SEGMENTS (CONTINUED)

	PRE-EFFECTIVE DATE
	FISCAL PERIOD FROM JANUARY 2, 1995 THROUGH MAY 2, 1995
Net revenue:	
Television	$12,141,986
Printing	2,368,909
	$14,510,895
Depreciation and amortization:	
Television	$ 1,631,472
Printing	144,600
	$ 1,776,072
Income from operations:	
Television	$ 3,810,498
Printing	123,388
	$ 3,933,886
Capital expenditures:	
Television	$ 450,106
Printing	47,622
	$ 497,728

13. SUBSEQUENT EVENTS

On February 13, 1998 the Company, its stockholders and Gray Communications Systems, Inc., a Georgia Corporation ("Gray"), entered into a definitive purchase agreement (the "Stock Purchase Agreement") whereby Gray agreed to acquire, and the stockholders agreed to sell, all of the capital stock of the Company for the aggregate purchase price of (i) $112 million, plus (ii) the Company's cash and cash equivalents, less (iii) the aggregate amount of the Company's indebtedness and accrued and unpaid interest thereon, including the accreted amount of the Company's 11 5/8% Secured Senior Notes due 2000. The value of the Company's cash, cash equivalents and aggregate indebtedness will be determined as of the close of business on the business day immediately preceding the closing date of the Stock Purchase Agreement.

Consummation of the transactions contemplated by the Stock Purchase Agreement is subject to the receipt of requisite governmental approvals, including the approval of the Federal Communications Commission. The Company can make no assurance as to whether the transactions contemplated by the Stock Purchase Agreement will be completed, but currently anticipates that such transactions will close on or before September 1, 1998.

APPENDIX C

Gray Communications Systems, Inc.
Pro Forma Condensed Combined Balance Sheet - June 30, 1998 (Unaudited)

The unaudited pro forma condensed combined balance sheet as of June 30, 1998 gives effect to the Busse-WALB Transactions under the purchase method of accounting and is based on a preliminary allocation of the purchase price reflecting the assumptions and the adjustments described in the accompanying notes.

This unaudited pro forma condensed combined balance sheet does not purport to represent the Company's actual financial position that would have been reported had the Busse-WALB Transactions occurred on June 30, 1998.

The pro forma adjustments are based upon currently available information and upon certain assumptions that management believes are reasonable under the circumstances. This unaudited pro forma condensed combined balance sheet should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto for the year ended December 31, 1997 (as filed in the Company's annual report on Form 10-K for the year ended December 31, 1997) and for the quarter ended June 30, 1998 (as filed in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1998).

Gray Communications Systems, Inc.
Pro Forma Condensed Combined Balance Sheet (Unaudited)
June 30, 1998
(in thousands, except per share data)

		Busse-WALB Transactions				
	Company	WALB	Busse	Pro Forma Adjustments		Pro Forma Combined
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 2,739	$ -0-	$ 9,046	$ 12,000	(1)	$ 2,738
				(63,791)	(2)	
				42,744	(3)	
Trade accounts receivable, net	20,025	-0-	3,651	-0-		23,676
Recoverable income taxes	1,897	-0-	-0-	-0-		1,897
Inventories	1,320	-0-	-0-	-0-		1,320
Current portion of program broadcast rights	1,325	(117)	197	-0-		1,405
Other current assets	1,186	(34)	579	(431)	(4)	1,300
Total current assets	28,492	(151)	13,473	(9,478)		32,336
PROPERTY AND EQUIPMENT, NET	43,175	(2,757)	12,555	830	(4)	53,803
OTHER ASSETS						
Deferred loan costs	7,987	-0-	1,426	(1,426)	(4)	7,987
Goodwill and other intangibles	261,159	-0-	46,827	105,534	(4)	380,244
				13,551	(5)	
				(46,827)	(6)	
Other	2,870	(96)	77	(860)	(7)	1,790
				(201)	(4)	
	272,016	(96)	48,330	69,771		390,021
	$ 343,683	$ (3,004)	$ 74,358	$ 61,123		$ 476,160
LIABILITIES AND STOCKHOLDERS' EQUITY						
CURRENT LIABILITIES						
Trade accounts payable	$ 3,392	$ -0-	$ 146	$ 1,200	(4)	$ 4,738
Employee compensation and benefits	3,840	-0-	422	-0-		4,262
Accrued expenses	2,647	-0-	151	-0-		2,798
Accrued interest	4,713	-0-	1,514	2,120	(8)	4,713
				(3,634)	(9)	
Current portion of program broadcast obligations	1,189	(163)	85	-0-		1,111
Deferred revenue	2,184	-0-	42	-0-		2,226
Current portion of long-term debt	579	-0-	-0-	-0-		579
Total current liabilities	18,544	(163)	2,360	(314)		20,427
LONG-TERM DEBT	226,322	-0-	61,168	5,111	(8)	269,066
				42,744	(3)	
				(66,279)	(9)	
OTHER LONG-TERM LIABILITIES	7,148	-0-	-0-	29,312	(10)	49,684
				13,551	(5)	
				(327)	(7)	
STOCKHOLDERS' EQUITY	91,669	(2,841)	10,830	48,688	(10)	136,983
				(533)	(7)	
				(10,830)	(4)	
	$ 343,683	$ (3,004)	$ 74,358	$ 61,123		$ 476,160

See notes to pro forma condensed combined balance sheet

Gray Communications Systems, Inc.
Notes to Pro Forma Condensed Combined Balance Sheet (Unaudited)
June 30, 1998

1) Reflects the receipt of $12.0 million that was received by the Company with the assets of WEAU in exchange for the assets of WALB.

2) Reflects the costs of the Busse-WALB Transactions as follows:

Description	Amount (in thousands)
Busse purchase price	$ 112,000
Busse cash balance	9,046
Costs associated with satisfaction and discharge of Busse Senior Notes	7,386
Other adjustments to purchase price	1,359
Less: Appraised value of WEAU received in exchange for WALB	(66,000)
	$ 63,791

3) Reflects net borrowing of $42.7 million under the Company's Senior Credit Facility in order to complete the Busse-WALB Transactions.

4) Reflects the preliminary allocation of the Busse purchase price of $112.0 million (plus Busse's cash balance of approximately $9.0 million) to the tangible assets and liabilities based upon estimates of fair market value at June 30, 1998 as follows:

Description	Amount (in thousands)
Cash and cash equivalents	$ 9,046
Trade accounts receivable, net	3,651
Current portion of program broadcast rights	197
Other current assets	148
Property and equipment, net	13,385
Adjustment to goodwill and other intangibles	105,534
Other assets	77
Trade accounts payable	(146)
Employee compensation and benefits	(422)
Accrued expenses	(151)
Accrued interest	(1,514)
Current portion of program broadcast obligations	(85)
Deferred revenue	(42)
Deferred acquisition costs	(1,401)
Busse Senior Notes - adjustment to fair market value	(7,231)
Busse purchase price (including Busse's cash balance)	$ 121,046

Description	Amount (in thousands)
Net equity of Busse	$ (10,830)
Adjustment of Busse assets and liabilities to market value	47,854
Prepayment of Busse Senior Notes	(61,168)
Deferred acquisition costs	1,401
Busse Senior Notes - adjustment to fair market value	7,231
	(15,512)
Busse purchase price (including Busse's cash balance)	121,046
Adjustment to goodwill and other intangibles	$ 105,534

5) Reflects goodwill and deferred income taxes associated with the value of the KOLN Federal Communications Commission license.

6) Reflects the elimination of goodwill as recorded by Busse.

7) Reflects the recognition of deferred sales costs as a transaction expense associated with the disposition of the assets of WALB. Also, reflects the adjustments for the related decrease in the income tax liability and retained earnings.

8) Reflects adjustment of Busse Senior Notes to approximate fair market value. The Busse Senior Notes are subject to redemption at the option of Busse, in whole or in part, at a redemption price of 106% (expressed as a percentage of the face amount of the Busse Senior Notes), plus accrued interest and unpaid interest on the date of redemption, if redeemed during the twelve-month period beginning on October 15, 1998.

9) Reflects the early satisfaction and discharge of the Busse Senior Notes. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding such notes at the October 15, 1998 call price of 106 plus accrued interest. The aggregate amount necessary to satisfy and discharge the Busse Senior Notes and accrued interest was approximately $69.9 million.

10) Reflects the income tax liability and the increase in retained earnings resulting from the Company's exchange of WALB. The exchange of WALB resulted in a pretax gain as calculated under Generally Accepted Accounting Principles of approximately $70.5 million as of July 31, 1998.

Gray Communications Systems, Inc.
Pro Forma Condensed Combined Statement of Operations (Unaudited)
For the Year Ended December 31, 1997

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

The following unaudited pro forma condensed combined statement of operations for the year ended December 31, 1997, is presented below and assumes that the WITN Acquisition and the Busse-WALB Transactions occurred on January 1, 1997. This unaudited pro forma condensed combined statement of operations does not include the pretax gain resulting from the disposition of the assets of WALB of approximately $70.5 million as of July 31, 1998.

This unaudited pro forma condensed combined statement of operations does not purport to represent the Company's actual results of operations had these events occurred on January 1, 1997, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. This unaudited pro forma condensed combined statement of operations should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto for the year ended December 31, 1997 (as filed in the Company's annual report on Form 10-K for the year ended December 31, 1997).

Pro Forma Condensed Combined Statement of Operations (Unaudited)
Year Ended December 31, 1997
(in thousands, except per share data)

	Company	WITN Acquisition: WITN	WITN Acquisition: Pro Forma Adjustments	Pro Forma Company	Busse-WALB Transactions: WALB	Busse-WALB Transactions: Busse	Busse-WALB Transactions: Pro Forma Adjustments	Pro Forma Combined
OPERATING REVENUES								
Broadcasting	$ 72,300	$ 4,551	$ -0-	$ 76,851	$ (10,090)	$ 18,971	$ -0-	$ 85,732
Publishing	24,536	-0-	-0-	24,536	-0-	-0-	-0-	24,536
Paging	6,712	-0-	-0-	6,712	-0-	-0-	-0-	6,712
	103,548	4,551	-0-	108,099	(10,090)	18,971	-0-	116,980
EXPENSES								
Broadcasting	41,966	2,706	-0-	44,672	(4,473)	8,428	345 (5)	48,972
Publishing	19,753	-0-	-0-	19,753	-0-	-0-	-0-	19,753
Paging	4,051	-0-	-0-	4,051	-0-	-0-	-0-	4,051
Corporate and administrative	2,528	128	(128)(1)	2,528	-0-	1,524	(1,524)(6)	2,528
Depreciation and amortization	14,520	619	196 (2)	15,335	(296)	5,802	(958)(7)	19,883
	82,818	3,453	68	86,339	(4,769)	15,754	(2,137)	95,187
	20,730	1,098	(68)	21,760	(5,321)	3,217	2,137	21,793
Miscellaneous income (expense) ..	(31)	12	-0-	(19)	4	406	(445)(8)	(54)
	20,699	1,110	(68)	21,741	(5,317)	3,623	1,692	21,739
Interest expense	21,861	952	1,029 (3)	23,842	-0-	8,341	(2,180)(9)	30,003
INCOME (LOSS) BEFORE INCOME TAXES	(1,162)	158	(1,097)	(2,101)	(5,317)	(4,718)	3,872	(8,264)
Income tax expense (benefit)	240	12	(967)(4)	(715)	(1,340)	-0-	(755)(4)	(2,810)
NET INCOME (LOSS)	(1,402)	146	(130)	(1,386)	(3,977)	(4,718)	4,627	(5,454)
Preferred dividends	1,410	-0-	-0-	1,410	-0-	4,822	(4,822)(10)	1,410
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS ..	$ (2,812)	$ 146	$ (130)	$ (2,796)	$ (3,977)	$ (9,540)	$ 9,449	$ (6,864)
AVERAGE OUTSTANDING COMMON SHARES:								
Basic	7,902			7,902				7,902
Stock compensation awards	-0-			-0-				-0-
Diluted	7,902			7,902				7,902
BASIC LOSS PER SHARE: Net loss available to common stockholders	$ (0.36)			$ (0.35)				$ (0.87)
DILUTED LOSS PER SHARE: Net loss available to common stockholders	$ (0.36)			$ (0.35)				$ (0.87)

See notes to pro forma condensed combined statements of operations

Gray Communications Systems, Inc.
Notes to Pro Forma Condensed Combined Statement of Operations (Unaudited)
For the Year Ended December 31, 1997

1) Reflects elimination of a corporate allocation from WITN's parent company to WITN. The Company in connection with its operations of WITN will not incur such amounts.

2) Reflects increased depreciation of approximately $52,000 resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of WITN. Also reflects increased amortization of approximately $144,000 resulting from the increase in goodwill and other intangible assets. Amortization of goodwill and other intangible assets associated with WITN will be calculated using an estimated useful life of 40 years.

3) Reflects increased interest expense associated with the borrowing of approximately $40.6 million to fund the WITN acquisition.

4) Reflects the adjustment of the income tax provision to the estimated effective tax rate.

5) Reflects elimination of a gain recognized by Busse that resulted from the curtailment of its pension plan. The Company in connection with its operations of Busse will not record such amount.

6) Reflects elimination of corporate and administrative expenses of Busse. The Company in connection with its operations of Busse will not incur such amounts.

7) Reflects decreased depreciation of approximately $7,000 resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of Busse. Also reflects decreased amortization of approximately $951,000 resulting from the increase in the estimated useful life of goodwill and other intangible assets partially offset by increased goodwill and other intangible assets. Amortization of goodwill and other intangible assets associated with Busse will be calculated using an estimated useful life of 40 years.

8) Reflects the elimination of interest income received by Busse. The Company will receive such interest income in connection with its placement in escrow of the funds necessary for the satisfaction and discharge of the Busse Senior Notes. However, for pro forma income statement presentation, this interest income is reflected as a reduction of interest expense.

9) Reflects adjustment to interest expense associated with the borrowing of approximately $42.7 million resulting from the Busse-WALB Transactions. Also, reflects interest expense on the Busse Senior Notes net of interest income resulting from the funds placed in escrow with the Busse Senior Note trustee to effect the satisfaction and discharge of such notes.

10) Reflects elimination of Busse's preferred stock dividend. The Company in connection with its operations of Busse will not incur such amounts on a consolidated basis.

Gray Communications Systems, Inc.
Pro Forma Condensed Combined Statement of Operations (Unaudited)
For the Six Months Ended June 30, 1998

The following unaudited pro forma condensed combined statement of operations for the six months ended June 30, 1998, is presented below and assumes that the Busse-WALB Transactions occurred on January 1, 1998. This unaudited pro forma condensed combined statement of operations does not include the pretax gain resulting from the disposition of the assets of WALB of approximately $70.5 million as of July 31, 1998.

The pro forma adjustments are based upon currently available information and upon certain assumptions that management believes are reasonable under the circumstances. This unaudited pro forma condensed combined statement of operations should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto for the year ended December 31, 1997 (as filed in the Company's annual report on Form 10-K for the year ended December 31, 1997) and for the quarter ended June 30, 1998 (as filed in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1998).

Gray Communications Systems, Inc.
Pro Forma Condensed Combined Statement of Operations (Unaudited)
Six Months Ended June 30, 1998
(in thousands, except per share data)

		Busse-WALB Transactions				
	Company	WALB	Busse	Pro Forma Adjustments		Pro Forma Combined
OPERATING REVENUES						
Broadcasting	$ 42,201	$ (5,658)	$ 10,216	$ -0-		$ 46,759
Publishing	13,916	-0-	-0-	-0-		13,916
Paging	3,925	-0-	-0-	-0-		3,925
	60,042	(5,658)	10,216	-0-		64,600
EXPENSES						
Broadcasting	24,779	(2,388)	4,448	-0-		26,839
Publishing	11,441	-0-	-0-	-0-		11,441
Paging	2,583	-0-	-0-	-0-		2,583
Corporate and administrative	1,317	-0-	960	(960)	(1)	1,317
Depreciation and amortization	7,844	(173)	2,869	(471)	(2)	10,069
	47,964	(2,561)	8,277	(1,431)		52,249
	12,078	(3,097)	1,939	1,431		12,351
Miscellaneous income (expense)	(314)	-0-	227	(227)	(3)	(314)
	11,764	(3,097)	2,166	1,204		12,037
Interest expense	11,967	-0-	4,192	(1,157)	(4)	15,002
INCOME (LOSS) BEFORE INCOME TAXES	(203)	(3,097)	(2,026)	2,361		(2,965)
Income tax expense	443	(1,178)	-0-	(273)	(5)	(1,008)
NET INCOME (LOSS)	(646)	(1,919)	(2,026)	2,634		(1,957)
Preferred dividends	718	-0-	2,411	(2,411)	(6)	718
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (1,364)	$ (1,919)	$ (4,437)	$ 5,045		$ (2,675)
AVERAGE OUTSTANDING COMMON SHARES:						
Basic	7,933					7,933
Stock compensation awards	-0-					-0-
Diluted	7,933					7,933
BASIC LOSS PER SHARE:						
Net loss available to common stockholders	$ (0.17)					$ (0.34)
DILUTED LOSS PER SHARE:						
Net loss available to common stockholders	$ (0.17)					$ (0.34)

See notes to pro forma condensed combined statements of operations

Gray Communications Systems, Inc.
Notes to Pro Forma Condensed Combined Statement of Operations (Unaudited)
For the Six Months Ended June 30, 1998

1) Reflects elimination of corporate and administrative expenses of Busse. The Company in connection with its operations of Busse will not incur such amounts.

2) Reflects decreased depreciation of approximately $12,000 resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of Busse. Also reflects decreased amortization of approximately $458,000 resulting from the increase in the estimated useful life of goodwill and other intangible assets partially offset by increased goodwill and other intangible assets. Amortization of goodwill and other intangible assets associated with Busse will be calculated using an estimated useful life of 40 years.

3) Reflects the elimination of interest income received by Busse. The Company will receive such interest income in connection with its placement in escrow of the funds necessary for the satisfaction and discharge of the Busse Senior Notes. However, for pro forma income statement presentation, this interest income is reflected as a reduction of interest expense.

4) Reflects adjustment to interest expense associated with the borrowing of approximately $42.7 million resulting from the Busse-WALB Transactions. Also, reflects interest expense on the Busse Senior Notes net of interest income resulting from the funds placed in escrow with the Busse Senior Note trustee to effect the satisfaction and discharge of such notes.

5) Reflects adjustment of income tax expense to the estimated effective tax rate.

6) Reflects elimination of Busse's preferred stock dividend. The Company in connection with its operations of Busse will not incur such amounts on a consolidated basis.