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

FORM 10-Q/A-1

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1996.

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________ .

COMMISSION FILE NUMBER 1-13796

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

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

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

(912) 888-9390
(Registrant's telephone number, including area code)

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

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

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

CLASS A COMMON STOCK, (NO PAR VALUE)

4,469,339 SHARES AS OF SEPTEMBER 9, 1996

CLASS B COMMON STOCK, NO PAR VALUE - NONE

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GRAY COMMUNICATIONS SYSTEMS, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	DECEMBER 31, 1995	JUNE 30, 1996
CURRENT ASSETS		
Cash and cash equivalents	$ 559,991	$ 1,287,096
Trade accounts receivable less allowance for doubtful accounts of $450,000 and $537,000, respectively	9,560,274	10,817,791
Recoverable income taxes	1,347,007	797,455
Inventories	553,032	109,028
Current portion of program broadcast rights	1,153,058	710,424
Other current assets	263,600	758,808
	13,436,962	14,480,602
PROPERTY AND EQUIPMENT	37,618,893	40,178,694
Less allowance for depreciation	(20,601,819)	(21,380,407)
	17,017,074	18,798,287
OTHER ASSETS		
Deferred acquisition costs (includes $910,000 and $1,050,000 to Bull Run Corporation at December 31, 1995 and June 30, 1996, respectively) (Note C)	3,330,481	2,818,851
Deferred loan costs (Note C)	1,232,261	1,881,648
Goodwill and other intangibles (Note C)	42,004,050	73,299,223
Other	1,219,650	1,237,021
	47,786,442	79,236,743
	$ 78,240,478	$ 112,515,632

	December 31, 1995	June 30, 1996
CURRENT LIABILITIES		
Trade accounts payable (includes $670,000 and $950,000 payable to Bull Run Corporation at December 31, 1995 and June 30, 1996, respectively)	$ 3,752,742	$ 3,169,283
Accrued expenses	5,839,007	7,063,971
Current portion of program broadcast obligations	1,205,784	709,782
Current portion of long-term debt	2,861,672	-0-
	13,659,205	10,943,036
LONG-TERM DEBT (includes $7,544,000, 8% Note to Bull Run Corporation at June 30, 1996)(Notes C and D)	51,462,645	82,845,688
NON-CURRENT LIABILITIES	4,133,030	4,913,624
COMMITMENTS AND CONTINGENCIES (Note E)		
STOCKHOLDERS' EQUITY (Notes B and D)		
Class A Common Stock, no par value; authorized 10,000,000 shares; issued 5,082,756 and 5,130,385 shares, respectively	6,795,976	10,000,365
Retained earnings	8,827,906	10,451,203
	15,623,882	20,451,568
Treasury stock, 663,180 shares at cost	(6,638,284)	(6,638,284)
	8,985,598	13,813,284
	$ 78,240,478	$ 112,515,632

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1995	1996	1995	1996
OPERATING REVENUES				
Broadcasting (net of agency commissions)	$ 9,911,279	$ 12,802,256	$ 18,260,940	$ 24,251,901
Publishing	5,245,470	5,684,858	10,046,114	11,261,792
	15,156,749	18,487,114	28,307,054	35,513,693
EXPENSES				
Broadcasting	5,819,735	7,108,335	11,409,511	14,418,200
Publishing	4,628,298	4,384,689	8,589,861	9,192,751
Corporate and administrative	519,075	795,220	1,012,024	1,570,806
Depreciation and amortization	942,951	1,505,470	1,821,700	2,900,724
Non-cash compensation paid in common stock (Note B)	580,314	60,000	816,474	120,000
	12,490,373	13,853,714	23,649,570	28,202,481
	2,666,376	4,633,400	4,657,484	7,311,212
Miscellaneous income	25,201	17,847	68,514	81,361
	2,691,577	4,651,247	4,725,998	7,392,573
Interest expense	1,391,723	2,215,763	2,768,187	4,444,878
INCOME BEFORE INCOME TAXES	1,299,854	2,435,484	1,957,811	2,947,695
Income tax expense	522,000	945,000	776,000	1,146,000
NET INCOME	$ 777,854	$ 1,490,484	$ 1,181,811	$ 1,801,695
AVERAGE OUTSTANDING COMMON SHARES				
Primary	4,411,995	4,707,564	4,383,263	4,656,691
Fully Diluted	4,452,889	4,750,117	4,417,362	4,693,046
NET EARNINGS PER COMMON SHARE				
Primary	$0.18	$0.32	$0.27	$0.39
Fully Diluted	$ 0.17	$0.31	$0.27	$0.38

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	Class A Common Stock		Treasury Stock			
	Shares	Amount	Shares	Amount	Retained Earnings	Total
Balance at December 31, 1995	5,082,756	$6,795,976	(663,180)	$(6,638,284)	$8,827,906	$8,985,598
Net income for the six months ended June 30, 1996	0	0	0	0	1,801,695	1,801,695
Cash dividends ($.04 per share)	0	0	0	0	(178,398)	(178,398)
Issuance of common stock warrants (Notes C and D)	0	2,600,000	0	0	0	2,600,000
Income tax benefits relating to stock plans	0	62,000	0	0	0	62,000
Issuance of Class A Common Stock:						
401(k) Plan	7,129	139,640	0	0	0	139,640
Directors stock plan	22,500	228,749	0	0	0	228,749
Non-qualified stock plan	18,000	174,000	0	0	0	174,000
Balance at June 30, 1996	5,130,385	$10,000,365	(663,180)	$(6,638,284)	$10,451,203	$13,813,284

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	SIX MONTHS ENDED JUNE 30	
	1995	1996
OPERATING ACTIVITIES		
Net income	$ 1,181,811	$ 1,801,695
Items which did not use (provide) cash:		
Depreciation	1,233,847	1,648,014
Amortization of intangible assets	587,853	1,252,710
Amortization of program broadcast rights	767,964	1,279,357
Amortization of original issue discount on subordinated note	-0-	144,444
Payments for program broadcast rights	(902,858)	(1,309,364)
Income tax benefit relating to stock plan	-0-	62,000
Compensation paid in Class A common stock	816,474	120,000
Supplemental employee benefits	(154,216)	(203,708)
Class A common stock contributed to 401(k) Plan	168,023	139,640
Deferred income taxes	109,000	676,059
(Gain) loss on disposal of assets	1,952	(17,968)
Changes in operating assets and liabilities:		
Receivables, inventories, and other current assets	(599,165)	1,081,052
Accounts payable and other current liabilities	616,978	126,622
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,827,663	6,800,553
INVESTING ACTIVITIES		
Acquisition of newspaper business	(1,232,509)	0
Acquisition of television business	0	(34,330,365)
Purchases of property and equipment	(1,852,431)	(1,317,345)
Deferred acquisition costs	(2,033,892)	(1,797,772)
Proceeds from asset sales	2,742	113,297
Other	(261,233)	(157,538)
NET CASH USED IN INVESTING ACTIVITIES	(5,377,323)	(37,489,723)
FINANCING ACTIVITIES		
Dividends paid	(172,110)	(178,398)
Class A common stock transactions	0	402,749
Proceeds from settlement of interest rate swap	0	215,000
Proceeds from borrowings of long-term debt	2,200,000	36,725,000
Payments on long-term debt	(820,281)	(5,748,076)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,207,609	31,416,275
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(342,051)	727,105
Cash and cash equivalents at beginning of period	558,520	559,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 216,469	$ 1,287,096

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Gray Communications Systems, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K/A-1 for the year ended December 31, 1995.

Certain amounts in the accompanying unaudited consolidated financial statements have been reclassified to conform to the 1996 format.

NOTE B--EMPLOYMENT AGREEMENTS

During the quarter ended March 31, 1995, the Company awarded 150,000 shares of its Class A Common Stock to its former president and chief executive officer under his employment agreement. Compensation expense of approximately $520,000 and $696,000 was recognized for these awards in the three months and six months ended June 30, 1995, respectively.

The Company has an employment agreement with its current President which provides for an award of 122,034 shares of Class A Common Stock if his employment with the Company continues until September 1999. Approximately $60,000 of expense was recognized in each quarter of 1995 and 1996 relating to this award and approximately $1.2 million of expense will be recognized over the five-year period ending in 1999.

NOTE C--BUSINESS ACQUISITIONS

The Company's acquisitions in 1995 and 1996 have been accounted for under the purchase method of accounting. Under the purchase method of accounting, the results of operations of the acquired businesses are included in the accompanying unaudited condensed consolidated financial statements as of their respective acquisition dates. The assets and liabilities of acquired businesses are included based on an allocation of the purchase price.

PENDING ACQUISITIONS

In December 1995 and as amended in March 1996, the Company entered into an asset purchase agreement to acquire (the "Phipps Acquisition") two CBS-affiliated stations, WCTV-TV ("WCTV") serving Tallahassee, Florida/Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, a satellite broadcasting business and a paging business (collectively, the "Phipps Business"). The purchase price is estimated at approximately $185.0 million. The Company's Board of Directors has agreed to pay Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, a finder's fee equal to 1% of the proposed purchase price for services performed, of which $1,050,000 is included in deferred acquisition costs and $950,000 is due and included in accounts payable at June 30, 1996.

The consummation of the Phipps Acquisition, which is expected to occur by September 1996, is subject to approval by the appropriate regulatory agencies. In connection with the Phipps Acquisition, the Company is seeking approval from the Federal Communications Commission ("FCC") of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest itself of WALB-TV ("WALB") in Albany, Georgia and WJHG-TV ("WJHG") in Panama City, Florida due to common ownership restrictions on stations with overlapping signals. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred

NOTE C--BUSINESS ACQUISITIONS (CONTINUED)

PENDING ACQUISITIONS (CONTINUED)

capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986 (the "Code"). If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC.

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

	JUNE 30, 1996	
	WALB	WJHG
Current assets	$ 1,801	$ 913
Property and equipment	1,714	1,014
Other assets	66	3
Total assets	$ 3,581	$ 1,930
Current liabilities	$ 1,756	$ 474
Other liabilities	214	0
Stockholders' equity	1,611	1,456
Total liabilities and stockholder's equity	$ 3,581	$ 1,930

Condensed income statement data of WALB is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1995	1996
Broadcasting revenues	$ 2,533	$ 2,759	$ 4,715	$ 5,098
Expenses	1,166	1,199	2,356	2,440
Operating income	1,367	1,560	2,359	2,658
Other income	5	0	9	9
Income before income taxes	1,372	1,560	2,368	2,667
Net income	$ 850	$ 968	$ 1,468	$ 1,654

Condensed income statement data of WJHG is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1995	1996
Broadcasting revenues	$ 975	$ 1,310	$ 1,826	$ 2,409
Expenses	888	984	1,690	1,933
Operating income	87	326	136	476
Other income	16	0	31	16
Income before income taxes	103	326	167	492
Net income	$ 63	$ 202	$ 103	$ 305

NOTE C--BUSINESS ACQUISITIONS (CONTINUED)

PENDING ACQUISITIONS (CONTINUED)

The Phipps Acquisition will be funded with a portion of the anticipated net proceeds of proposed public offerings by the Company of $150.0 million principal amount of the Company's senior subordinated notes and 3.5 million shares of the Company's Class B Common Stock, the sale of 1,000 shares of the Company's Series B Preferred Stock ($10.0 million) and warrants to Bull Run and the sale of KTVE Inc., the Company's broadcast station in Monroe, Louisiana/El Dorado, Arkansas. Additionally, the Company plans to retire its existing bank credit facility and other senior indebtedness (See Notes E and F) and enter into a new bank credit facility.

In connection with the Phipps Acquisition, a bank has provided a $10.0 million stand-by letter of credit to the seller of the Phipps Business on behalf of the Company. The letter of credit will be payable under certain conditions if the Phipps Acquisition is not completed. In connection with the issuance of the letter of credit, a stockholder of the Company has executed a put agreement which the bank can exercise if the Company defaults on repayment of any amounts that might be paid in accordance with the terms of the letter of credit.

1996 ACQUISITIONS

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

Funds for the Augusta Acquisition were obtained from the modification of the Company's existing bank debt to a variable rate reducing revolving credit facility (the "Senior Credit Facility") and the sale to Bull Run of an 8% subordinated note due January 3, 2005 in the principal amount of $10.0 million (the "8% Note"). In connection with the sale of the 8% Note, the Company also issued warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at $17.88 per share, 300,000 shares of which are currently vested, with the remainder vesting in five equal annual installments commencing in 1997 provided that the 8% Note is outstanding. The Senior Credit Facility provides for a credit line up to $54.2 million, of which $49.5 million was outstanding at June 30, 1996. This transaction also required a modification of the interest rate of the Company's $25.0 million senior secured note (the "Senior Note") with an institutional investor from 10.08% to 10.7%.

As part of the financing arrangements for the Phipps Acquisition, the 8% Note will be retired and the Company will issue to Bull Run, in exchange for the 8% Note, 1,000 shares of Series A Preferred Stock. The warrants issued with the 8% Note will vest in accordance with the schedule described above provided the Series A Preferred Stock remains outstanding.

NOTE C--BUSINESS ACQUISITIONS (CONTINUED)

1996 ACQUISITION (CONTINUED)

An unaudited pro forma statement of income for the three months and six months ended June 30, 1995 is presented below and assumes that the Augusta Acquisition occurred on January 1, 1995.

This pro forma unaudited statement of income does not purport to represent the Company's actual results of operations had the Augusta Acquisition occurred on January 1, 1995, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Subsequent adjustments are expected upon final determination of the allocation of the purchase price. An unaudited pro forma statement of income for the three months and six months ended June 30, 1995 is as follows (in thousands, except per share data):

	THREE MONTHS ENDED JUNE 30, 1995	SIX MONTHS ENDED JUNE 30, 1995
Operating revenues	$ 17,560	$ 32,666
Expenses	12,400	23,906
Depreciation and amortization	1,232	2,396
Non-cash compensation paid in Class A Common Stock	580	816
	3,348	5,548
Miscellaneous income (expense), net	(12)	33
Interest expense	2,303	4,572
Pro forma income before income taxes	1,033	1,009
Income tax expense	415	407
Pro forma net income	$ 618	$ 602
Pro forma average shares outstanding	4,490	4,436
Pro forma earnings per share	$ 0.14	$ 0.14

1995 ACQUISITION

On January 6, 1995, the Company purchased substantially all of the assets of the Gwinnett Post-Tribune and assumed certain liabilities (the "Gwinnett Acquisition"). The assets consist of office equipment and publishing operations located in Lawrenceville, Georgia. The purchase price of $3.7 million, including assumed liabilities of approximately $370,000, was paid by approximately $1.2 million in cash (financed through long-term borrowings and cash from operations), the issuance of 44,117 shares of Class A Common Stock (having fair value of $500,000), and $1.5 million payable to the sellers pursuant to non-compete agreements. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $3.4 million. In connection with the Gwinnett Acquisition the Company's Board of Directors approved the payment of a $75,000 finder's fee to Bull Run.

NOTE D--STOCKHOLDERS' EQUITY

A portion of the funds for the Augusta Acquisition was obtained from the 8% Note, which included the issuance of detachable warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at $17.88 per share, 300,000 shares of which are currently vested, with the remainder vesting in five equal annual installments commencing in 1997 provided that the 8% Note is outstanding. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. This allocation of the proceeds was based on an estimate of the relative fair values of the 8% Note and the warrants on the date of issuance. The Company is amortizing the original issue discount over the period of time that the 8% Note is to be outstanding, During the three months and six months ended June 30, 1996, the Company recognized approximately $72,000 and $144,000, respectively in amortization costs for the $2.6 million original issue discount.

NOTE E--COMMITMENTS AND CONTINGENCIES

The Company entered into an interest rate swap agreement (the "Interest Swap") on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. The Interest Swap was effective for five years. Approximately $25.0 million of the Company's outstanding long-term debt was subject to this Interest Swap. Effective May 14, 1996, the Company received $215,000 as settlement of this Interest Swap, which will be reflected as a reduction of interest expense over the remaining term of the original five-year Interest Swap.

Upon termination of the five-year Interest Swap, the Company entered into an interest rate cap agreement (the "Interest Cap") on May 16, 1996, which expires on September 6, 1996. Approximately $25.0 million of the Company's outstanding long-term debt is subject to this Interest Cap. This Interest Cap serves to cap the base rate of the Company's Senior Credit Facility at 7%. The base rate used to compare against the Interest Cap at June 30, 1996 was approximately 5.5%. Accordingly, the Interest Cap had no value at June 30, 1996. The effective rate of the Senior Credit Facility at June 30, 1996 was approximately 8.94%. Effective July 19, 1996, the Company's interest rates, based on a spread over LIBOR, were reduced 0.25% as the result of the attainment of certain debt provisions.

On May 15, 1996, the Company entered into an agreement with GOCOM Television of Ouachita, L.P., to sell the assets of KTVE Inc., the Company's NBC-affiliated station serving Monroe, Louisiana/El Dorado, Arkansas, for approximately $9.5 million in cash plus the amount of the accounts receivable on the date of closing (estimated to be approximately $750,000) to the extent collected by the buyer, to be paid to the Company 150 days following the date of closing. The sale agreement regarding KTVE included a number of closing conditions. The Company completed the sale of the assets of KTVE Inc. on August 20, 1996. The Company anticipates recognizing in the quarter ended September 30, 1996, the gain, net of income taxes, and the estimated income taxes on the sale of KTVE of approximately $2.8 million and $2.8 million, respectively.

A condensed balance sheet of KTVE is as follows (in thousands):

	JUNE 30, 1996
Current assets	$ 864
Property and equipment	1,540
Other assets	550
Total assets	$ 2,954
Current liabilities	$ 333
Other liabilities	476
Stockholders' equity	2,145
Total liabilities and stockholders' equity	$ 2,954

NOTE E--COMMITMENTS AND CONTINGENCIES (CONTINUED)

Condensed income statement data of KTVE is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1995	1996
Broadcasting revenues	$ 1,039	$ 1,237	$ 1,958	$ 2,303
Expenses	960	973	1,891	1,943
Operating income	79	264	67	360
Other income (expense)	5	(2)	9	1
Income before income taxes	84	262	76	361
Net income	$ 52	$ 163	$ 47	$ 224

NOTE F--SUBSEQUENT EVENTS

On May 2, 1996, the Company filed a Registration Statement with the Securities and Exchange Commission (the "SEC") on Form S-1 to register the sale of 4,025,000 shares of Class B Common Stock, including an over-allotment option granted by the Company to the underwriters of such offering, subject to shareholder approval. Also on May 2, 1996, the Company filed a Registration Statement with the SEC on Form S-1 to register the sale of $150,000,000 Senior Subordinated Notes due in 2006. On May 13, July 9, and August 9, 1996, the Company filed amendments to such Registration Statements.

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

RESULTS OF OPERATIONS OF THE COMPANY

INTRODUCTION

The Company derives its revenues from its television broadcasting and publishing operations. As a result of the Augusta Acquisition, which was completed in January 1996, and the acquisition of WKYT-TV and WYMT-TV in September 1994, the proportion of the Company's revenues derived from television broadcasting has increased and will continue to increase as a result of the Phipps Acquisition, which is expected to occur by September 1996. As a result of the higher operating margins associated with the Company's television broadcasting operations, the profit contribution of these operations as a percentage of revenues has exceeded, and is expected to continue to exceed, the profit contribution of the Company's publishing operations. Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Company's television broadcasting and publishing operations.

	THREE MONTHS ENDED JUNE 30,			
	1995		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
TELEVISION BROADCASTING				
Revenues	$ 9,911.2	65.4%	$ 12,802.3	69.2%
Operating income (1)	3,348.7	90.1	4,629.9	84.2
PUBLISHING				
Revenues	$ 5,245.5	34.6%	$ 5,684.9	30.8%
Operating income (1)	368.4	9.9	871.4	15.8

	SIX MONTHS ENDED JUNE 30,			
	1995		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
TELEVISION BROADCASTING				
Revenues	$18,260.9	64.5%	$ 24,251.9	68.3%
Operating income (1)	5,416.1	84.8	7,757.3	85.9
PUBLISHING				
Revenues	$10,046.1	35.5%	$ 11,261.8	31.7%
Operating income (1)	972.2	15.2	1,272.7	14.1

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

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

TELEVISION BROADCASTING

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

	THREE MONTHS ENDED JUNE 30,			
	1995		1996	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
	(DOLLARS IN THOUSANDS)			
NET REVENUES:				
Local	$ 5,330.2	35.2%	$ 7,069.9	38.2%
National	3,027.4	20.0	3,878.6	21.0
Network compensation	651.5	4.3	894.4	4.8
Political	412.5	2.7	573.4	3.1
Production and other	489.6	3.2	386.0	2.1
	$ 9,911.2	65.4%	$12,802.3	69.2%

	SIX MONTHS ENDED JUNE 30,			
	1995		1996	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
	(DOLLARS IN THOUSANDS)			
NET REVENUES:				
Local	$10,294.6	36.4%	$13,745.3	38.7%
National	5,497.4	19.4	6,967.9	19.6
Network compensation	1,247.2	4.4	1,761.0	5.0
Political	437.9	1.5	786.3	2.2
Production and other	783.8	2.8	991.4	2.8
	$18,260.9	64.5%	$24,251.9	68.3%

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

TELEVISION BROADCASTING (CONTINUED)

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

Most broadcast advertising contracts are short-term, and generally run only for a few weeks. The Company estimates that approximately 54.9% and 56.2%, respectively of the gross revenues of the Company's television stations for the three months and six months ended June 30, 1996, respectively were generated from local advertising, which is sold by a station's sales staff directly to local accounts, and the remainder primarily represents national advertising, which is sold by a station's national advertising representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising.

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

The broadcasting operations' primary operating expenses are employee compensation, related benefits and programming costs. In addition, the broadcasting operations incur overhead expenses such as maintenance, supplies, insurance, rent and utilities. A large portion of the operating expenses of the broadcasting operations is fixed.

PUBLISHING

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

	THREE MONTHS ENDED JUNE 30,			
	1995		1996	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
	(DOLLARS IN THOUSANDS)			
NET REVENUES:				
Retail advertising	$2,645.8	17.4%	$2,692.2	14.6%
Classified	1,318.3	8.7	1,554.3	8.4
Circulation	893.3	5.9	1,073.7	5.8
Other	388.1	2.6	364.7	2.0
	$5,245.5	34.6%	$5,684.9	30.8%

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

PUBLISHING (CONTINUED)

	SIX MONTHS ENDED JUNE 30,			
	1995		1996	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
	(DOLLARS IN THOUSANDS)			
NET REVENUES:				
Retail advertising	$ 5,089.5	18.0%	$ 5,299.8	14.9%
Classified	2,493.7	8.8	3,036.5	8.5
Circulation	1,821.6	6.4	2,188.6	6.2
Other	641.3	2.3	736.9	2.1
	$10,046.1	35.5%	$11,261.8	31.7%

In the Company's publishing operations, advertising contracts are generally annual and primarily provide for a commitment as to the volume of advertising purchased by a customer. The publishing operations' advertising revenues are primarily generated from retail advertising. As with the broadcasting operations, the publishing operations' revenues are generally highest in the second and fourth quarters of each year.

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

MEDIA CASH FLOW

The following table sets forth certain operating data for both the broadcast and publishing operations for the three months and six months ended June 30, 1995 and 1996:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1995	1996
	(DOLLARS IN THOUSANDS)			
Operating income	$2,666.4	$4,633.4	$4,657.5	$ 7,311.2
Add:				
Amortization of program license rights	366.1	632.5	768.0	1,279.4
Depreciation and amortization	942.9	1,505.5	1,821.7	2,900.7
Corporate overhead	519.1	795.2	1,012.0	1,570.8
Non-cash compensation and contributions to the Company's 401-k plan, paid in Class A Common Stock	675.0	119.4	976.4	250.8
Less:				
Payments for program license liabilities	(421.5)	(647.8)	(902.8)	(1,309.3)
Media Cash Flow (1)	$4,748.0	$7,038.2	$8,332.8	$12,003.6

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

MEDIA CASH FLOW (CONTINUED)

(1) Of Media Cash Flow, $4.1 million and $5.7 million was attributable to the Company's broadcasting operations during the three months ended June 30, 1995 and 1996, respectively; and $6.8 million and $9.9 million was attributable to the Company's broadcasting operations during the six months ended June 30, 1995 and 1996, respectively.

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

THREE MONTHS ENDED JUNE 30, 1996 COMPARED TO THREE MONTHS ENDED JUNE 30, 1995

REVENUES. Total revenues for the three months ended June 30, 1996 increased $3.3 million, or 22.0%, over the three months ended June 30, 1995, from $15.2 million to $18.5 million. This increase was attributable to (i) the Augusta Acquisition, which occurred on January 4, 1996 and (ii) increases in publishing and broadcasting (excluding the Augusta Acquisition) revenues. The Augusta Acquisition accounted for $2.4 million, or 72.3%, of the revenue increase.

Broadcast net revenues increased $2.9 million, or 29.2%, over the same period of the prior year, from $9.9 million to $12.8 million. Revenues generated by the Augusta Acquisition accounted for $2.4 million, or 72.3%, of the increase. On a pro forma basis, broadcast net revenues for WRDW for the three months ended June 30, 1996 remained relatively constant with the same period of the prior year, due to increased political spending offset by a decline in local advertising. Broadcast net revenues, excluding the Augusta Acquisition, increased $482,000, or 4.8%, over the three months ended June 30, 1995. Approximately $449,000 and $132,000 of the $482,000 increase in total broadcast net revenues, excluding the Augusta Acquisition, were due to higher local and national advertising spending, respectively. The Company's broadcast operations also experienced a $178,000 decrease in second quarter revenues associated with an investment in a sports programming joint venture.

Publishing revenues increased $439,000, or 8.4%, over the three months ended June 30, 1995, from $5.3 million to $5.7 million. Advertising and circulation revenues comprised $277,000 and $180,000, respectively, of the revenue increase. The increase in advertising revenue was primarily the result of linage increases in classified advertising and rate increases in retail advertising. The increase in circulation revenue can be attributed primarily to price increases over the same period of the prior year at two of the publishing operations and the conversion of the GWINNETT DAILY POST to a five-day-a-week paper.

OPERATING EXPENSES. Operating expenses for the three months ended June 30, 1996 increased $1.4 million, or 10.9%, over the three months ended June 30, 1995, from $12.5 million to $13.9 million, due to the Augusta Acquisition and increased corporate overhead and depreciation and amortization, offset by decreased expenses at the broadcasting and publishing operations and non-cash compensation paid in Class A Common Stock.

Broadcasting expenses for the three months ended June 30, 1996, increased $1.3 million, or 22.1%, over the same period of the prior year, from $5.8 million to $7.1 million. This increase was primarily attributable to the Augusta Acquisition. On a pro forma basis, broadcast expenses for the Augusta Acquisition for the three months ended June 30, 1996 of $1.4 million remained relatively constant compared to the same period of 1995. Broadcasting expenses, excluding the Augusta Acquisition, decreased $148,000, or 2.5%, primarily due to lower outside consulting services and promotional costs.

THREE MONTHS ENDED JUNE 30, 1996 COMPARED TO THREE MONTHS ENDED JUNE 30, 1995 (CONTINUED)

Publishing expenses for the three months ended June 30, 1996 decreased $244,000, or 5.3%, from the same period of the prior year, from $4.6 million to $4.4 million. This decrease resulted primarily from a decrease in work force related costs, improved newsprint pricing, and restructuring of the advertising publications, offset by higher product delivery and outside service costs associated with the conversion of the GWINNETT DAILY POST to a five-day-a-week newspaper. Newsprint consumption increased approximately 3%.

Corporate and administrative expenses for the three months ended June 30, 1996 increased $276,000, or 53.2%, over the same period of the prior year, from $519,000 to $795,000. This increase was attributable primarily to the addition of several new officers.

Depreciation of property and equipment and amortization of intangible assets was $1.5 million for the three months ended June 30, 1996, compared to $943,000 for the same period of the prior year, an increase of $563,000, or 59.7%. This increase was primarily the result of higher depreciation and amortization costs related to the Augusta Acquisition and $3.3 million of capital expenditures made in 1995.

Non-cash compensation paid in Class A Common Stock resulting from the Company's employment agreements with its current President and a separation agreement with its former chief executive officer decreased $520,000, or 89.7%, for the three months ended June 30, 1996, from $580,000 to $60,000. This decrease resulted from the Company's award in 1995 of 150,000 shares of Class A Common Stock to its former chief executive officer, the expense for such award was recognized in 1995 (including $520,000 recognized in the quarter ended June 30, 1995).

INTEREST EXPENSE. Interest expense increased $824,000, or 59.2%, from $1.4 million for the three months ended June 30, 1995 to $2.2 million for the three months ended June 30, 1996. This increase was attributable primarily to increased levels of debt resulting from the financing of the Augusta Acquisition.

NET INCOME. Net income for the Company was $1.5 million for the three months ended June 30, 1996, compared with $778,000 for the same period in 1995, an increase of $713,000, or 91.6%.

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

REVENUES. Total revenues for the six months ended June 30, 1996 increased $7.2 million, or 25.5%, over the six months ended June 30, 1995, from $28.3 million to $35.5 million. This increase was attributable to (i) the Augusta Acquisition, which occurred on January 4, 1996 and (ii) increases in publishing and broadcasting (excluding the Augusta Acquisition) revenues. The Augusta Acquisition accounted for $4.5 million, or 62.3%, of the revenue increase.

Broadcast net revenues increased $6.0 million, or 32.8%, over the same period of the prior year, from $18.3 million to $24.3 million. Revenues generated by WRDW accounted for $4.5 million, or 74.9%, of the increase. On a pro forma basis, broadcast net revenues for WRDW for the six months ended June 30, 1996 increased $130,000, or 3.0%, over the same period of the prior year. Broadcast net revenues, excluding the Augusta Acquisition, increased $1.5 million, or 8.2%, over the six months ended June 30, 1995. Approximately $1.1 million, $94,000 and $171,000 of the $1.5 million increase in total broadcast net revenues, excluding the Augusta Acquisition, were due to higher local, national and political advertising spending, respectively. The remaining increase is due to greater tower rental and special projects revenue.

Publishing revenues increased $1.2 million, or 12.1%, over the six months ended June 30, 1995 from $10.1 million to $11.3 million. Advertising and circulation revenues comprised $766,000 and $367,000, respectively, of the revenue increase. The increase in advertising revenue was primarily the result of linage increases in classified advertising and retail rate increases. The increase in circulation revenue can be attributed primarily to price increases over the same period of the prior year at two of the Company's publishing operations and the conversion of the GWINNETT DAILY POST to a five-day-a-week paper. Approximately $81,000 of the publishing revenue increase was the result of higher special events revenue.

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995 (CONTINUED)

OPERATING EXPENSES. Operating expenses for the six months ended June 30, 1996 increased $4.6 million, or 19.3%, over the six months ended June 30, 1995, from $23.6 million to $28.2 million, due to the Augusta Acquisition and increased expenses at the broadcasting and publishing operations, as well as increased corporate and administrative expenses, depreciation and amortization, offset by a reduction in non-cash compensation paid in Class A Common Stock.

Broadcasting expenses for the six months ended June 30, 1996 increased $3.0 million, or 26.4%, over the same period of the prior year from $11.4 million to $14.4 million. This increase was primarily attributable to the Augusta Acquisition. On a pro forma basis, broadcast expenses for WRDW for the six months ended June 30, 1996 decreased $129,000, or 4.5%, over the same period of 1995, from $2.9 million to $2.8 million. Broadcasting expenses, excluding WRDW, increased $243,000, or 2.1%, primarily as the result of higher payroll related costs.

Publishing expenses for the six months ended June 30, 1996 increased $603,000, or 7.0%, over the same period of the prior year, from $8.6 million to $9.2 million. This increase resulted primarily from the conversion of the GWINNETT DAILY POST to a five-day-a-week paper and the acquisition of advertising only publications in September 1995. Newsprint costs increased approximately 12% while consumption of newsprint increased approximately 7%. Payroll related costs, promotional costs, product delivery costs and outside service costs increased over the same period of the prior year.

Corporate and administrative expenses for the six months ended June 30, 1996 increased $559,000, or 55.2%, over the same period of the prior year, from $1.0 million to $1.6 million. This increase was attributable primarily to the addition of several new officers.

Depreciation of property and equipment and amortization of intangible assets was $2.9 million for the six months ended June 30, 1996, compared to $1.8 million for the same period of the prior year, an increase of $1.1 million or 59.2%. This increase was primarily the result of higher depreciation and amortization costs related to the Augusta Acquisition and $3.3 million of capital expenditures made in 1995.

Non-cash compensation paid in Class A Common Stock resulting from the Company's employment agreement with its current President and a separation agreement with its former chief executive officer decreased $696,000, or 85.3%, for the six months ended June 30, 1996, from $816,000 to $120,000. This decrease resulted from the Company's award in 1995 of 150,000 shares of Class A Common Stock to its former chief executive officer. The expense for such award was recognized in 1995 (including $696,000 recognized in the six months ended June 30, 1995).

INTEREST EXPENSE. Interest expense increased $1.7 million, or 60.6%, from $2.8 million for the six months ended June 30, 1995 to $4.4 million for the six months ended June 30, 1996. This increase was attributable primarily to increased levels of debt and resulting from the financing of the Augusta Acquisition.

NET INCOME. Net income for the Company was $1.8 million for the six months ended June 30, 1996, compared with $1.2 million for the same period in 1995, an increase of $620,000, or 52.5%.

LIQUIDITY AND CAPITAL RESOURCES

Following the consummation of the sale of KTVE, the Phipps Acquisition and certain related financings and the public offerings, the Company will be highly leveraged. The Company anticipates that its principal uses of cash for the next several years will be working capital and debt service requirements, cash dividends, capital expenditures and expenditures related to additional acquisitions. The Company anticipates that its operating cash flow, together with borrowings available under the Senior Credit Facility, will be sufficient for such purposes for the remainder of 1996 and 1997.

The Company's working capital (deficiency) was $(221,000) and $3.5 million at December 31, 1995 and June 30, 1996, respectively. The Company's cash provided from operations was $3.8 million and $6.8 million for the six months ended June 30, 1995 and 1996, respectively.

The Company's cash used in investing activities was $5.4 million and $37.5 million for the six months ended June 30, 1995 and 1996, respectively. The increased usage of $32.1 million was due primarily to the Augusta Acquisition.

The Company was provided $1.2 million and $31.4 million in cash by financing activities for the six months ended June 30, 1995 and 1996, respectively, due primarily to the funding of the Gwinnett Acquisition in 1995 and the Augusta Acquisition in 1996. Long-term debt was $82.8 million and the balance of the Senior Credit Facility was $49.5 million, at June 30, 1996. The weighted average interest rate of the Senior Credit Facility was 8.94% on June 30, 1996.

The Company regularly enters into program contracts for the right to broadcast television programs produced by others and program commitments for the right to broadcast programs in the future. Such programming commitments are generally made to replace expiring or canceled program rights. Payments under such contracts are made in cash or the concession of advertising spots for the program provider to resell, or a combination of both. At December 31, 1995, payments on program license liabilities due in 1996 and 1997, which will be paid with cash from operations, were $1.2 million and $110,000, respectively.

During the six months ended June 30, 1996, the Company made $1.3 million in capital expenditures, relating primarily to broadcasting operations, and paid $1.3 million for program broadcast rights. The Company anticipates making an aggregate of $3.0 million in capital expenditures and $2.7 million in payments for program broadcast rights during 1996. The Company believes that cash flows from operations will be sufficient to fund such expenditures, which will be adequate for the Company's normal replacement requirements.

On May 15, 1996, the Company entered into an agreement with GOCOM Television of Ouachita, L.P., to sell the assets of KTVE Inc. for approximately $9.5 million in cash plus the amount of the accounts receivable on the date of the closing. The Company completed the sale of the assets of KTVE Inc. on August 20, 1996. The Company anticipates recognizing in the quarter ended September 30, 1996, the gain, net of income taxes, and the income taxes resulting from the sale of KTVE of approximately $2.8 million and $2.8 million, respectively.

In connection with the Phipps Acquisition, the Company will be required to divest WALB and WJHG under current FCC regulations. However, these rules may be revised by the FCC upon conclusion of pending rule-making proceedings. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC under the waivers, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. It is anticipated that the Company would be required to relinquish operating control of such assets to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness.

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

11 - Statement re: Computation of Earnings Per Share

27- Financial Data Schedule

(b) Reports on Form 8-K

A report on Form 8-K was amended in July 1996, reporting the purchase of WRDW from Television Station Partners, L.P. and WRDW Associates.

SIGNATURES

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

GRAY COMMUNICATIONS SYSTEMS, INC.
(Registrant)

Date: September 9, 1996 By: /s/ William A. Fielder, III
William A. Fielder, III, Vice President & CFO
(Chief Financial Officer)

Date: September 9, 1996 By: /s/ Sabra H. Cowart
Sabra H. Cowart, Controller & CAO
(Chief Accounting Officer)

EXHIBIT 11

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1995	1996	1995	1996
PRIMARY:				
Weighted average shares outstanding	4,229,894	4,464,459	4,249,299	4,454,038
Common Stock Equivalents - based on the treasury stock method using average market price	182,101	243,105	133,964	202,653
Totals	4,411,995	4,707,564	4,383,263	4,656,691
Net income	$ 777,854	$ 1,490,484	$1,181,811	$1,801,695
Per share amount	$ 0.18	$ 0.32	$ 0.27	$ 0.39
FULLY DILUTED:				
Weighted average shares outstanding	4,229,894	4,464,459	4,249,299	4,454,038
Common Stock Equivalents - based on the treasury stock method using quarter-end market price which is greater than average market price	222,995	285,658	168,063	239,008
Totals	4,452,889	4,750,117	4,417,362	4,693,046
Net income	$ 777,854	$1,490,484	$1,181,811	$1,801,695
Per share amount	$ 0.17	$ 0.31	$ 0.27	$ 0.38