

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

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 15, 1999 (October 1, 1999)

GRAY COMMUNICATIONS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Georgia

0-13796

58-0285030

(State or other
jurisdiction of
incorporation)

(Commission File
Number)

(IRS Employer
Identification Number)

4370 Peachtree Road, NE
Atlanta, GA

30319

(Address of principal executive offices)

(Zip code)

(404) 504-9828

(Registrant's telephone number, including area code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On October 1, 1999, Gray Communications Systems, Inc. ("Gray") completed its acquisition of all the outstanding capital stock of KWTX Broadcasting Company ("KWTX") and Brazos Broadcasting Company ("Brazos"), as well as the assets of KXII Broadcasters Ltd. ("KXII"). Gray acquired the capital stock of KWTX and Brazos in merger transactions with the shareholders of KWTX and Brazos receiving a combination of cash and Gray class B common stock for their shares. Gray acquired the assets of KXII in an all cash transaction.

KWTX operates CBS affiliate KWTX-TV located in Waco, Texas and Brazos operates KBTX-TV, a satellite station of KWTX-TV located in Bryan, Texas, each serving the Waco-Temple-Bryan, Texas television market. KXII operates KXII-TV, which is the CBS affiliate serving Sherman, Texas and Ada, Oklahoma.

For additional information with respect to these acquisitions, reference is made to Gray's definitive proxy statement which is filed as an exhibit hereto and is incorporated by reference herein.

Aggregate consideration (net of cash acquired) paid was approximately \$145.8 million which included a base purchase price of \$139.0 million, transaction expenses of \$2.8 million, certain net working capital adjustments (excluding cash) of \$3.4 million and assumed liabilities of \$600,000. Gray funded the acquisitions by issuing 3,435,774 shares of Gray class B common stock to the sellers, additional borrowings of \$94.4 million under its amended bank loan agreement and cash on hand.

The terms of the acquisition, including the consideration paid by Gray, were determined in arms-length negotiations between Gray and the sellers.

In connection with the acquisitions, Gray entered into an amended loan agreement with a group of lenders whose primary agents were Bank of America, N.A., Banc of America Securities LLC, Key Corporate Capital Inc. and First Union National Bank. The primary modifications to the loan agreement effected by the amendment were an increase in committed available credit and an increase in interest rates. Under the amended loan agreement, committed available credit increased from \$200.0 million to \$300.0 million. Prior to the amendment, the loan agreement consisted of a \$100.0 million revolving commitment (the "Revolving Commitment") and a \$100.0 million term loan commitment ("Term Loan A Commitment"). The increase in committed available credit was effected by the addition of a second \$100.0 million term loan commitment ("Term Loan B Commitment").

Under the amended loan agreement, Gray, at its option, can borrow funds at an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus a premium or at an interest rate equal to the lender's prime rate ("Prime") plus a premium. As a result of the amended loan agreement, the interest rates payable by Gray for funds borrowed under the Revolving Commitment and Term Loan A Commitment increased as follows: the

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS. (CONTINUED)

premium over Prime increased from a range of 0.0% to 0.5% to a range of 0.0% to 1.75% and the premium over LIBOR increased from a range of 0.75% to 2.25% to a range of 1.25% to 3.0%. Under the new Term Loan B Commitment, funds can be borrowed at Prime plus 1.75% to 2.0% and/or LIBOR plus 3.0% to 3.25%. The premium above Prime and/or LIBOR payable by Gray will be determined by Gray's operating leverage ratio that is calculated quarterly.

Immediately after the acquisitions, Gray had \$231.0 million outstanding under the amended bank loan agreement with \$69.0 million remaining available. As of October 1, 1999, Gray is incurring interest at a rate of Prime plus 1.5% and/or LIBOR plus 2.75% for funds borrowed under the Revolving Commitment and Term Loan A Commitment. For funds borrowed under Term Loan B Commitment, Gray is incurring interest at Prime plus 2.0% and/or LIBOR plus 3.25%.

The maturity schedule for the Revolving Commitment and the Term Loan A Commitment did not change as a result of the amendment to the loan agreement. The amount outstanding under the newly established Term Loan B Commitment will become fixed on March 30, 2001 and must be paid as follows: 1.0% in 2001, 1.0% in 2002, 1.0% in 2003, 1.0% in 2004 and 96.0% in 2005. Reference is made to the amended loan agreement, which is filed as an exhibit hereto and incorporated by reference herein.

In connection with the amendment to the loan agreement, Gray incurred approximately \$2.6 million in additional financing costs of which \$2.3 million had been paid as of the date of the amendment. These financing costs were funded through borrowings under the amended bank loan agreement.

Gray paid Bull Run Corporation, an affiliate of Gray, a fee of \$1.39 million for advisory services performed for Gray in connection with the acquisitions. This fee was paid in full as of the acquisition date and included in the fee portion of the aggregate consideration for the acquisition described above. Gray will pay an additional \$300,000 to Bull Run Corporation for services performed in connection with arranging the \$100.0 million Term Loan B Commitment. This financing fee is also included in the financing costs described above.

ITEM 5. OTHER EVENTS.

The following matters were voted upon at the 1999 Annual Meeting of Shareholders of Gray, on September 23, 1999, and votes were cast as indicated.

ITEM 5. OTHER EVENTS. (CONTINUED)

1.) Election of Directors:

Nominee	For	Withheld Authority
Richard L. Boger	63,757,400	1,493,769
Hilton H. Howell, Jr.	63,748,400	1,502,769
William E. Mayher, III	63,757,400	1,493,769
Zell Miller	63,743,150	1,508,019
Howell W. Newton	63,737,400	1,513,769
Hugh Norton	63,754,300	1,496,869
Robert S. Prather, Jr.	63,757,400	1,493,769
Harriett J. Robinson	63,725,229	1,525,940
J. Mack Robinson	63,745,229	1,505,940

2.) To approve the issuance of shares of Gray class B common stock in connection with the proposed acquisitions of KWTX and Brazos.

For	Against	Abstain	Broker Non-Votes
55,758,921	400,392	108,640	8,983,216

3.) To approve the amendment of the 1992 Long Term Incentive Plan to increase the number of shares of Gray class B common stock issuable thereunder.

For	Against	Abstain	Broker Non-Votes
46,797,643	2,519,785	38,984	15,894,757

4.) To confirm the appointment of Ernst & Young LLP as independent auditors of Gray for the year ending December 31, 1999.

For	Against	Abstain
64,998,389	245,030	7,750

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired.

The financial statements of the businesses acquired, as required by this Item 7(c), are incorporated by reference to pages F-1 to F-49 of Gray's definitive proxy statement, dated August 16, 1999.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS. (CONTINUED)

(b) Pro Forma Financial Information.

The pro forma financial information, as required by this item 7(b), is incorporated by reference to the caption Pro Forma Condensed Combined Financial Data which begins on page 50 of Gray's definitive proxy statement, dated August 16, 1999.

(c) Exhibits.

(99.1) Second Amended and Restated Loan Agreement dated as of October 1, 1999 by and among Gray Communications Systems, Inc., as Borrower; The Financial Institutions Signatory Hereto, as Lenders; and Bank of America, N.A., as Administrative Agent for the Lenders with Banc of America Securities LLC as Lead Arranger and Book Manager; Key Corporate Capital, Inc., as documentation agent and First Union National Bank, as Syndication Agent

(99.2) Gray's definitive proxy statement, dated August 16, 1999

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 15, 1999

SECOND AMENDED AND RESTATED LOAN AGREEMENT

DATED AS OF OCTOBER 1, 1999
BY AND AMONG

GRAY COMMUNICATIONS SYSTEMS, INC.,
AS BORROWER;

THE FINANCIAL INSTITUTIONS SIGNATORY HERETO,
AS LENDERS;

AND

BANK OF AMERICA, N.A.,
AS ADMINISTRATIVE AGENT FOR THE LENDERS

WITH

BANC OF AMERICA SECURITIES LLC
AS LEAD ARRANGER AND
BOOK MANAGER;

KEY CORPORATE CAPITAL, INC.,
AS DOCUMENTATION AGENT;

AND

FIRST UNION NATIONAL BANK,
AS SYNDICATION AGENT

POWELL, GOLDSTEIN, FRAZER & MURPHY LLP
ATLANTA, GEORGIA

SECOND AMENDED AND RESTATED
 LOAN AGREEMENT
 among
 GRAY COMMUNICATIONS SYSTEMS, INC.,
 as Borrower;
 THE FINANCIAL INSTITUTIONS SIGNATORY HERETO,
 as Lenders;
 and
 BANK OF AMERICA, N.A.,
 as Administrative Agent for the Lenders

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SECOND AMENDED AND RESTATED LOAN AGREEMENT

THIS SECOND AMENDED AND RESTATED LOAN AGREEMENT (this "Agreement") is entered into as of this 1st day of October, 1999 by and among GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Borrower"), THE FINANCIAL INSTITUTIONS SIGNATORY HERETO (the "Lenders") and BANK OF AMERICA, N.A., as administrative agent (the "Administrative Agent"),

W I T N E S S E T H:

WHEREAS, the Borrower, the Syndication Agent and the Administrative Agent (each as defined in the Prior Loan Agreement as hereinafter defined), and certain of the Lenders are all parties to the Prior Loan Agreement; and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders consent to certain amendments to the Prior Loan Agreement, as more fully set forth in this Agreement; and

WHEREAS, the Administrative Agent and the Lenders have agreed to amend and restate the Prior Loan Agreement, as more fully set forth in this Agreement; and

WHEREAS, the Borrower acknowledges and agrees that the security interest granted to the Administrative Agent (as defined in the Prior Loan Agreement), for itself and on behalf of the Documentation Agent, the Syndication Agent and the Lenders (each as defined in the Prior Loan Agreement) pursuant to the Prior Loan Agreement and the Collateral Documents (as defined in the Prior Loan Agreement) executed in connection therewith shall remain outstanding and in full force and effect in accordance with the Prior Loan Agreement and shall continue to secure the Obligations (as hereinafter defined); and

WHEREAS, the Borrower acknowledges and agrees that: (i) the Obligations (as hereinafter defined) represent, among other things, the amendment, restatement, renewal, extension, consolidation and modification of the Obligations (as defined in the Prior Loan Agreement) arising in connection with the Prior Loan Agreement and the other Collateral Documents executed in connection therewith; (ii) the parties hereto intend that the Prior Loan Agreement and the other Collateral Documents executed in connection therewith and the collateral pledged thereunder shall secure, without interruption or impairment of any kind, all existing Indebtedness under the Prior Loan Agreement and the other Collateral Documents executed in connection therewith, as so amended, restated, restructured, renewed, extended, consolidated and modified hereunder, together with Obligations (as hereinafter defined), (iii) all Liens evidenced by the Prior Loan Agreement and the other Collateral Documents executed in connection therewith are hereby ratified, confirmed and continued; and (iv) the Loan Documents (as hereinafter defined) are intended to restructure, restate, renew, extend, consolidate, amend and modify the Prior Loan Agreement and the other Collateral Documents executed in connection therewith; and

WHEREAS, the parties hereto intend that (i) the provisions of the Prior Loan Agreement and the other Collateral Documents executed in connection therewith, to the extent restructured, restated, renewed, extended, consolidated, amended and modified hereby, are hereby superseded and replaced by the provisions hereof and of the Loan Documents; and (ii) the Notes (as hereinafter defined) amend, renew, extend, modify, replace, are substituted for and supersede in their entirety, but do not extinguish the indebtedness arising under, the promissory notes issued pursuant to the Prior Loan Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereby amend and restate the Prior Loan Agreement as follows:

ARTICLE 1

Definitions

Section 1.1 Defined Terms. The following terms when used in this Agreement shall have the following meanings:

"Acquisition" shall mean (whether by purchase, lease, exchange, issuance of stock or other equity or debt securities, merger, reorganization or any other method) (a) any acquisition by the Borrower or any Subsidiary of the Borrower or any other Person, which Person shall then become consolidated with the Borrower or any such Subsidiary in accordance with GAAP; (b) any acquisition by the Borrower or any Subsidiary of the Borrower of all or substantially all of the assets of any other Person; or (c) any other acquisition by the Borrower or any Subsidiary of the Borrower of the assets of another Person which acquisition is not in the ordinary course of business for the Borrower or such Subsidiary.

"Adjusted Leverage Ratio" shall mean, as of any date, the ratio of (a) the difference between (i) Total Debt as of such date minus (ii) the aggregate amount of the Borrower's cash and marketable securities then on hand, not to exceed \$5,000,000.00 to (b) Operating Cash Flow for the four (4) quarter period then ended or most recently ended.

"Administrative Agent" shall mean Bank of America, N.A., in its capacity as Administrative Agent for the Lenders or any successor Administrative Agent appointed pursuant to Section 9.12 hereof.

"Administrative Agent's Office" shall mean the office of the Administrative Agent located at Agency Services, NC1-001-15-04, Independence Center, 101 North Tryon Street, Charlotte, NC 28255, or such other office as may be designated pursuant to the provisions of Section 11.1 hereof.

"Advance" shall mean amounts advanced by the Lenders to the Borrower pursuant to Article 2 hereof on the occasion of any borrowing and having the same Interest Rate Basis and Interest Period; and "Advances" shall mean more than one Advance.

"Affiliate" shall mean, with respect to a Person, any other Person directly or indirectly controlling, controlled by, or under common control with, such first Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. "Affiliate" shall also mean any beneficial owner of Ownership Interests representing ten percent (10%) or more of the total voting power of such Ownership Interests (on a fully diluted basis) of the Borrower or of rights or warrants to purchase such Ownership Interests (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof. Unless otherwise specified, "Affiliate" shall mean an Affiliate of the Borrower.

"Agreement" shall mean this Second Amended and Restated Loan Agreement, as amended, supplemented, restated or otherwise modified from time to time.

"Agreement Date" shall mean the date as of which this Agreement is dated.

"Applicable Law" shall mean, in respect of any Person, all provisions of constitutions, statutes, rules, regulations and orders of governmental bodies or regulatory agencies applicable to such Person, including, without limitation, the Communications Act, zoning ordinances and all Environmental Laws, and all orders, decisions, judgments and decrees of all courts and arbitrators in proceedings or actions to which the Person in question is a party or by which it is bound.

"Applicable Margin" shall mean the interest rate margin applicable to Base Rate Advances and LIBOR Advances, as the case may be, in each case determined in accordance with Section 2.3(f) hereof.

"Approved Fund" shall mean, with respect to any Lender that is a fund that invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Asset Sale" shall mean the sale, lease, transfer or other disposition by the Borrower or any of its Subsidiaries to any Person of any of the stock, partnership interests or other equity interests of any Subsidiary or any other assets of the Borrower or any Subsidiary.

"Assignment and Assumption Agreement" shall mean any Assignment and Assumption Agreement substantially in the form of Exhibit A attached hereto pursuant to which any Lender, as further provided in Section 11.5 hereof, sells a portion of its Commitments and/or Loans.

"Assignment of General Partner Interests" shall mean any Assignment of General Partner Interests between the Borrower or any of its Subsidiaries, on the one hand, and the Administrative Agent, on the other hand, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any similar agreement substantially in form of Exhibit M-1 attached hereto.

"Assignment of Limited Partner Interests" shall mean any Assignment of Limited Partner Interests between the Borrower or any of its Subsidiaries, on the one hand, and the Administrative Agent, on the other hand, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any similar agreement substantially in the form of Exhibit M-2 attached hereto.

"Authorized Signatory" shall mean such senior personnel of a Person as may be duly authorized and designated in writing from time to time by such Person to execute documents, agreements and instruments on behalf of such Person.

"Available Letter of Credit Commitment" shall mean, at any time, the lesser of (a) (i) \$15,000,000.00, minus (ii) all Letter of Credit Obligations then outstanding, and (b) (i) the Available Revolving Loan Commitment.

"Available Revolving Loan Commitment" shall mean, as of any date, (a) the Revolving Loan Commitment in effect on such date minus (b) the sum of (i) the aggregate amount of all Letter of Credit Obligations then outstanding and (ii) the Revolving Loans then outstanding.

"Base Rate" shall mean, at any time, a fluctuating interest rate per annum equal to the higher of (a) the rate of interest quoted from time to time by the Administrative Agent as its "prime rate" or "base rate" or (b) the Federal Funds Rate plus one-half of one percent (1/2%). The Base Rate is not necessarily the lowest rate of interest charged by the Administrative Agent in connection with extensions of credit.

"Base Rate Advance" shall mean an Advance which the Borrower requests to be made as or converted to a Base Rate Advance, in accordance with the provisions of Section 2.2 hereof, and which shall be in a principal amount of at least \$500,000.00, and in an integral multiple of \$200,000.00.

"Base Rate Basis" shall mean a simple interest rate equal to the sum of (i) the Base Rate and (ii) the Applicable Margin applicable to Base Rate Advances. The Base Rate Basis shall be adjusted automatically as of the opening of business on the effective date of each change in the Base Rate to account for such change, and shall also be adjusted to reflect changes of the Applicable Margin applicable to Base Rate Advances.

"Borrower" shall mean Gray Communications Systems, Inc., a Georgia corporation.

"Borrower Pledge Agreement" shall mean, collectively, that certain Second Amended and Restated Borrower Pledge Agreement dated as of the Agreement Date by and between the

Borrower and the Administrative Agent, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any other similar agreement substantially in the form of Exhibit B attached hereto, pursuant to which the Borrower has pledged to the Administrative Agent, for itself and on behalf of the Lenders, all of the Borrower's Ownership Interests in any of its Subsidiaries existing on the Agreement Date or formed or acquired by the Borrower after the Agreement Date.

"Borrower Security Agreement" shall mean, collectively, that certain Second Amended and Restated Borrower Security Agreement dated as of the Agreement Date by and between the Borrower and the Administrative Agent, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any other similar agreement substantially in the form of Exhibit C attached hereto.

"Broker/Dealer" shall mean, with respect to any Investment or Acquisition permitted under Section 7.6 hereof, (a) any broker/dealer (acting as principal) registered as a broker or a dealer under Section 15 of the Exchange Act, the unsecured short-term debt obligations of which are rated "P-1" by Moody's Investors Service, Inc. and at least "A-1" by Standard and Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., at the time of entering into such Investment or Acquisition or (b) an unrated, broker/dealer, acting as principal, that is a wholly-owned Subsidiary of a non-bank or bank holding company, the unsecured short-term debt obligations of which are rated "P-1" by Moody's Investors Service, Inc. and at least "A-1" by Standard and Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., at the time of entering into such Investment or Acquisition.

"Business Day" shall mean a day on which banks and foreign exchange markets are open for the transaction of business required for this Agreement in Atlanta, Georgia and London, England, as relevant to the determination to be made or the action to be taken.

"Capital Expenditures" shall mean any payments by the Borrower or any of its Subsidiaries for or in connection with the rental, lease, purchase, construction or use of any real or personal property, the value or cost of which, under GAAP, should be capitalized and appear on the Borrower's or such Subsidiary's balance sheet in the category of property, plant or equipment, without regard to the manner in which such payments or the instrument pursuant to which they are made are characterized by the Borrower or such Subsidiary or any other Person; provided, however, that neither (a) the capitalized portion of the purchase price payable in connection with the Texas Acquisition or any other Acquisition permitted hereunder, nor (b) expenditures of proceeds of insurance policies reasonably and promptly applied to replace insured assets, shall constitute a Capital Expenditure for purposes of this Agreement.

"Capitalized Lease Obligation" shall mean that portion of any obligation of a Person as lessee under a lease which at the time would be required to be capitalized on the balance sheet of such lessee in accordance with GAAP.

"Cash Equivalents" shall mean, as of any date of determination, (a) marketable securities (i) issued or directly and unconditionally guaranteed as to interest and principal by the United

States government or (ii) issued by any agency of the United States government the obligations of which are backed by the full faith and credit of the United States of America, in each case maturing within one (1) year after such date; (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof, in each case maturing within one (1) year after such date and having, at the time of the acquisition thereof, the highest rating obtainable from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.; (c) commercial paper, money-market funds and business savings accounts issued by corporations, each of which shall have a combined net worth of at least \$100,000,000.00 and each of which conducts a substantial part of its business in the United States, maturing within two hundred seventy (270) days from the date of the original issue thereof, and rated "P-2" or better by Moody's Investors Service, Inc. or "A-2" or better by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc.; (d) certificates of deposit or bankers' acceptances maturing within one (1) year after such date and issued or accepted by any Lender or by any commercial bank organized under the laws of the United States or any state thereof or the District of Columbia that (i) is at least "adequately capitalized" (as defined in the regulations of its primary Federal banking regulator) and (ii) has Tier 1 capital (as defined in the regulations) of not less than \$100,000,000.00; and (e) shares of any money market mutual fund that (i) has at least ninety-five percent (95%) of its assets invested continuously in the types of investments referred to in clauses (a), (b) and (c) above, (ii) has net assets of not less than \$500,000,000.00, and (iii) has the highest rating obtainable from either Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., or Moody's Investors Service, Inc.

"Certificate of Financial Condition" shall mean a certificate dated the Agreement Date, substantially in the form of Exhibit D attached hereto, signed by the chief financial officer of the Borrower, together with any schedules, exhibits or annexes appended thereto.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean any property of any kind constituting collateral for the Obligations under any of the Security Documents.

"Commercial Letter of Credit shall mean a documentary letter of credit issued in respect of the purchase of goods or services by the Borrower or its Subsidiaries by the Issuing Bank in accordance with the terms hereof.

"Commitments" shall mean, collectively, the Revolving Loan Commitment, the Term Loan A Commitment and the Term Loan B Commitment.

"Commitment Ratio" shall mean, with respect to any Lender for any Commitment, the percentage equivalent of the ratio which such Lender's portion of such Commitment (or, in the case of Term Loan A or Term Loan B after the Agreement Date, such Lender's portion of such Loan) bears to the aggregate amount of such Commitment or Loan, as the case may be (as each may be adjusted from time to time as provided herein); and "Commitment Ratios" shall mean, with respect to any Commitment, the Commitment Ratios of all of the Lenders with respect to

such Commitment. As of the Agreement Date, the Commitment Ratios of the Lenders party to this Agreement are as set forth on Schedule 1 attached hereto.

"Communications Act" shall mean the Communications Act of 1934, and any similar or successor federal statute, and the rules and regulations of the FCC thereunder, all as the same may be in effect from time to time.

"Continue", "Continuation" and "Continued" shall mean the continuation pursuant to Article 2 hereof of a LIBOR Advance as a LIBOR Advance from one Interest Period to the next Interest Period.

"Convert", "Conversion" and "Converted" shall mean a conversion pursuant to Article 2 hereof of a LIBOR Advance into a Base Rate Advance or of a Base Rate Advance into a LIBOR Advance, as applicable.

"Default" shall mean any Event of Default, and any of the events specified in Section 8.1 hereof, regardless of whether there shall have occurred any passage of time or giving of notice, or both, that would be necessary in order to constitute such event an Event of Default.

"Default Rate" shall mean a simple per annum interest rate equal to the sum of (a) the applicable Base Rate Basis and (b) two percent (2%).

"Documentation Agent" shall mean Key Corporate Capital, Inc.

"Employee Pension Plan" shall mean any Plan which is maintained by the Borrower, any of its Subsidiaries or any ERISA Affiliate.

"Environmental Claim" means any investigation, notice, notice of violation, claim, action, suit, proceeding, demand, abatement order or other order or directive (conditional or otherwise), by any governmental authority or any other Person, arising (i) pursuant to or in connection with any actual or alleged violation of any Environmental Law, (ii) in connection with any Hazardous Materials or any actual or alleged Hazardous Materials Activity, or (iii) in connection with any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment.

"Environmental Laws" shall mean all applicable federal, state or local laws, statutes, rules, regulations or ordinances, codes, common law, consent agreements, orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder relating to public health, safety or the pollution or protection of the environment, including, without limitation, those relating to releases, discharges, emissions, spills, leaching, or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls, asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, crude oil or any fraction thereof, or other hydrocarbons), pollutants or contaminants, to exposure to toxic, hazardous or other controlled, prohibited, or regulated substances, including, without limitation,

any such provisions under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. ss. 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. ss.1801 et seq.), the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. ss. 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. ss. 1251 et seq.), the Clean Air Act (42 U.S.C. ss. 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. ss. 2601 et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. ss. 136 et seq.), the Occupational Safety and Health Act (29 U.S.C. ss. 651 et seq.), the Oil Pollution Act (33 U.S.C. ss. 2701 et seq.) and the Emergency Planning and Community Right-to-Know Act (42 U.S.C. ss. 11001 et seq.), each as amended or supplemented, any analogous present or future state or local statutes or laws, and any regulations promulgated pursuant to any of the foregoing.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as in effect from time to time.

"ERISA Affiliate" shall mean any Person, including a Subsidiary or an Affiliate of the Borrower, that is a member of any group of organizations of which the Borrower is a member and which is covered by a Plan.

"Event of Default" shall mean any of the events specified in Section 8.1 hereof, provided that any requirement for notice or lapse of time, or both, has been satisfied.

"FCC" shall mean the Federal Communications Commission and any successor or substitute governmental commission, agency, department, board or authority performing functions similar to those performed by the Federal Communications Commission on the date hereof.

"FCC License" shall mean any license required under the Communications Act or from the FCC.

"FCC Regulations" shall mean all rules, regulations, written policies, orders and decisions of the FCC under the Communications Act.

"Federal Funds Rate" shall mean, as of any date, the weighted average of the rates on overnight federal funds transactions with the members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three (3) federal funds brokers of recognized standing selected by the Administrative Agent.

"Fed Regulations" shall have the meaning ascribed thereto in Section 4.1(n) hereof.

"Fixed Charge Coverage Ratio" shall mean, as of any date, the ratio of (a) Operating Cash Flow for the four (4) quarter period then ended or most recently ended to (b) Fixed Charges.

"Fixed Charges" shall mean, as of any date, the sum of (i) all Interest Expense, (ii) all required principal payments of Revolving Loans made pursuant to scheduled Revolving Commitment reductions, (iii) all required principal payments due on Term Loan A, (iv) all required principal payments due on Term Loan B, (v) all principal payments required to be made by the Borrower and its Subsidiaries on Total Debt (other than the Loans), (vi) Capital Expenditures made by the Borrower and its Subsidiaries, (vii) any federal, state or local income taxes paid by the Borrower or any of its Subsidiaries, plus (viii) any purchases of common stock of the Borrower by the Borrower or any of its Subsidiaries, in each case, for or during the four (4) quarter period then ended or most recently ended. For purposes of calculating the Fixed Charge Coverage Ratio as of any date from January 1, 2000 through December 31, 2002, Fixed Charges for or during the four (4) quarter period then ended or most recently ended, as the case may be, shall exclude actual HDTV Capital Expenditures for such four (4) quarter period (A) in an amount not to exceed \$8,000,000.00 and (B) to the extent made on or after January 1, 2000 and on or prior to December 31, 2002.

"GAAP" shall mean, as in effect from time to time, generally accepted accounting principles in the United States, consistently applied.

"Guaranty" or "Guaranteed," as applied to an obligation, shall mean and include (a) a guaranty, direct or indirect, in any manner, of all or any part of such obligation, and (b) any agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limitation, any reimbursement obligations as to amounts drawn down by beneficiaries of outstanding letters of credit or capital call requirements.

"Hazardous Materials" shall mean (i) any chemical, material or substance at any time defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "acutely hazardous waste," "radioactive waste," "biohazardous waste," "pollutant," "toxic pollutant," "contaminant," "restricted hazardous waste," "infectious waste," "toxic substances," or any other term or expression intended to define, list or classify substances by reason of properties harmful to health, safety or the indoor or outdoor environment (including, without limitation, harmful properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, "TCLP toxicity" or "EP toxicity" or words of similar import under any applicable Environmental Laws); (ii) any oil, petroleum, petroleum fraction or petroleum derived substance; (iii) any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (iv) any flammable substances or explosives; (v) any radioactive materials; (vi) any asbestos-containing materials; (vii) urea formaldehyde foam insulation; (viii) electrical equipment which contains any oil or dielectric fluid containing polychlorinated biphenyls; (ix) pesticides; and (x) any other chemical, material

or substance, exposure to which is prohibited, limited or regulated by any governmental authority or which may or could pose a hazard to the health and safety of the owners, occupants or any Persons in the vicinity of any Real Property or to the indoor or outdoor environment.

"Hazardous Materials Activity" shall mean any past, current, proposed or threatened activity, event or occurrence involving any Hazardous Materials, including the use, manufacture, possession, storage, holding, presence, existence, location, Release, threatened Release, discharge, placement, generation, transportation, processing, construction, treatment, abatement, removal, remediation, disposal, disposition or handling of any Hazardous Materials, and any corrective action or response action with respect to any of the foregoing.

"HDTV Capital Expenditures" shall mean Capital Expenditures made in connection with mandated conversion to digital television broadcasting, including, without limitation, the purchase of transmission, distribution, studio and antenna equipment and transmission site modifications, including construction and modification of towers.

"Indebtedness" shall mean, with respect to any Person as of any date, all liabilities, obligations and reserves, contingent or otherwise, which, in accordance with GAAP, would be reflected as a liability on a balance sheet (excluding trade accounts payable and accrued expenses arising in the ordinary course of business), including, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to assets purchase by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all obligations of others secured by (or for which the holder of such obligations has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed by such Person, (g) all obligations or liabilities Guaranteed by such Person, (h) all Capitalized Lease Obligations of such Person, (i) all Interest Rate Hedge Agreements, and (j) all obligations of such Person as an account party to reimburse any Person in respect of letters of credit (including, without limitation, the Letters of Credit) or bankers' acceptances. The Indebtedness of any Person shall include any recourse Indebtedness of any partnership in which such Person is a general partner.

"Indemnitee" shall have the meaning ascribed thereto in Section 5.11 hereof.

"Interest Coverage Ratio" shall mean as of any date, the ratio of (a) Operating Cash Flow for the four (4) fiscal quarter period then ended or most recently ended to (b) the sum of (i) Interest Expense and (ii) dividends made by the Borrower and its Subsidiaries in respect of the Ownership Interests of the Borrower or such Subsidiary, in each case, for the same four (4) quarter period (excluding dividends made in such Ownership Interests).

"Interest Expense" shall mean, for any period, the gross interest expense accrued by the Borrower and its Subsidiaries in respect of their Indebtedness for such period, determined on a

consolidated basis, all fees payable under Section 2.4 or any fee letter of the Borrower executed in connection with this Agreement, and any other fees, charges, commissions and discounts in respect of Indebtedness, including, without limitation, any fees payable in connection with the Letters of Credit, but excluding deferred finance charges all calculated in accordance with GAAP. For purposes of the foregoing, gross interest expense shall be determined after giving effect to any net payments made or received by the Borrower with respect to Interest Rate Hedge Agreements.

"Interest Period" shall mean (a) in connection with any Base Rate Advance, the period beginning on the date such Advance is made as or Converted to a Base Rate Advance and ending on the last day of the fiscal quarter in which such Advance is made or as Converted to a Base Rate Advance, provided, however, that if a Base Rate Advance is made or Converted on the last day of any fiscal quarter, it shall have an Interest Period ending on, and its Payment Date shall be, the last day of the following fiscal quarter, and (b) in connection with any LIBOR Advance, the term of such Advance selected by the Borrower or otherwise determined in accordance with this Agreement. Notwithstanding the foregoing, however, (i) any applicable Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless, with respect to LIBOR Advances only, such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day, (ii) any applicable Interest Period, with respect to LIBOR Advances only, which begins on a day for which there is no numerically corresponding day in the calendar month during which such Interest Period is to end shall (subject to clause (i) above) end on the last day of such calendar month, and (iii) the Borrower shall not select an Interest Period which extends beyond the Maturity Date, or such earlier date as would interfere with the Borrower's repayment obligations under Section 2.7 hereof. Interest shall be due and payable with respect to any Advance as provided in Section 2.3 hereof.

"Interest Rate Basis" shall mean the Base Rate Basis or the LIBOR Basis, as appropriate.

"Interest Rate Hedge Agreements" shall mean the obligations of any Person pursuant to any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements.

"Investment" shall mean, with respect to the Borrower or any of its Subsidiaries, (a) any loan, advance or extension of credit (other than to customers in the ordinary course of business) by such Person to, or any Guaranty or other contingent liability with respect to the capital stock, indebtedness or other obligations of, or any contributions to the capital of, any other Person, or any ownership, purchase or other acquisition by such Person of any interest in any capital stock, limited partnership interests, general partnership interest, or other securities of such other Person, other than an Acquisition, and (b) all expenditures by the Borrower or any of its Subsidiaries relating to the foregoing.

"Issuing Bank" shall mean Bank of America, N.A., in its capacity as the issuer of the Letters of Credit, or any successor issuer of the Letters of Credit.

"Known to the Borrower" or "to the knowledge of the Borrower" shall mean known by or reasonably should have been known by the executive officers of the Borrower (including, without limitation, the chief executive officer, president, the chief operating officer, if any, the chief financial officer, the controller, the chief accounting officer or the general counsel of the Borrower).

"Lead Arranger and Book Manager" shall mean Banc of America Securities, LLC.

"Lenders" shall mean the Persons whose names appear as "Lenders" on the signature pages hereof and any other Person which becomes a "Lender" hereunder after the Agreement Date; and "Lender" shall mean any one of the foregoing Lenders.

"Letter of Credit Obligations" shall mean, as of any date, the sum of (a) an amount equal to the aggregate undrawn and unexpired amount (including the amount to which any such Letter of Credit can be reinstated pursuant to the terms hereof) of the then outstanding Letters of Credit and (b) an amount equal to the aggregate drawn, but unreimbursed drawings on any Letters of Credit.

"Letter of Credit Reserve Account" shall mean any account maintained by the Administrative Agent for the benefit of the Issuing Bank pursuant to the terms hereof.

"Letters of Credit" shall mean either Standby Letters of Credit or Commercial Letters of Credit issued by the Issuing Bank on behalf of the Borrower or its Subsidiaries from time to time in accordance with the terms hereof.

"Leverage Ratio" shall mean, as of any date, the ratio of (a) Total Debt as of such date to (b) Operating Cash Flow for the four (4) quarter period then ended or most recently ended.

"LIBOR" shall mean, for any Interest Period, the average of the interest rates per annum at which deposits in United States Dollars for such Interest Period are offered to the Administrative Agent in the Eurodollar market at approximately 11:00 a.m. (London, England time) two (2) Business Days before the first day of such Interest Period, in an amount approximately equal to the principal amount of, and for a length of time approximately equal to the Interest Period for, the LIBOR Advance sought by the Borrower.

"LIBOR Advance" shall mean an Advance which the Borrower requests to be made as, Continued as or Converted to a LIBOR Advance in accordance with the provisions of Section 2.2 hereof, and which shall be in a principal amount of at least \$1,000,000.00 and in an integral multiple of \$500,000.00.

"LIBOR Basis" shall mean a simple per annum interest rate (rounded upward, if necessary, to the nearest one-hundredth (1/100th) of one percent (1.0%)) equal to the sum of (a) the quotient of (i) the LIBOR divided by (ii) one (1) minus the Eurodollar Reserve Percentage, if any, stated as a decimal, plus (b) the Applicable Margin. The LIBOR Basis shall apply to Interest Periods of one (1), two (2), three (3), or six (6), nine (9) and twelve (12) months, and, once determined, shall remain unchanged during the applicable Interest Period, except for changes to reflect adjustments in the Eurodollar Reserve Percentage and the Applicable Margin as adjusted pursuant to Section 2.3(f) hereof. The LIBOR Basis for any LIBOR Advance shall be adjusted as of the effective date of any change in the Eurodollar Reserve Percentage and the Applicable Margin. The Borrower may not elect an Interest Period in excess of six (6) months unless the Administrative Agent has notified the Borrower that each of the Lenders has funds available to it for such Lender's portion of the proposed Advance which are not required for other purposes, and that such funds are available to each Lender at a rate (exclusive of reserves and other adjustments) at or below the LIBOR Basis for such proposed Advance and Interest Period.

"LIBOR Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, all basic, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements) for a member bank of the Federal Reserve System in respect of Eurocurrency Liabilities (as that term is defined in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time). The LIBOR Rate shall be adjusted automatically on and as of the effective date of any change in the LIBOR Reserve Percentage.

"License" shall mean any license, authorization, permit, consent, franchise, ordinance, registration, certificate, agreement or other right filed with, granted by, or entered into by a federal, state or local governmental authority which permits or authorizes the acquisition, construction or operation of a television station or satellite broadcasting or portable phone paging operation, or any part of a television station or satellite broadcasting or portable phone paging operation, or which is required for the acquisition, ownership or operation of any Station, any Newspaper, the Porta-Phone Paging Business or the Satellite Broadcasting Business, including, without limitation, the FCC Licenses.

"License Sub" shall mean each Subsidiary of the Borrower which has no assets other than FCC Licenses.

"Lien" shall mean, with respect to any property, any mortgage, lien, pledge, negative pledge or other agreement not to pledge, assignment, charge, security interest, title retention agreement, levy, execution, seizure, attachment, garnishment or other encumbrance of any kind in respect of such property, whether created by statute, contract, the common law or otherwise, and whether or not choate, vested or perfected.

"Loan Documents" shall mean this Agreement, the Notes, the Security Documents, all fee letters, all Requests for Advance, all Interest Rate Hedge Agreements between the Borrower, on the one hand, and the Administrative Agent, the Lenders or their Affiliates, or any of them, on the other hand, all compliance certificates issued by the Borrower or any of its Subsidiaries and all other documents, agreements, supplements, confirmations, instruments or certificates executed or delivered in connection with or contemplated by this Agreement or any of the foregoing.

"Loans" shall mean, collectively, the Revolving Loans, the Term Loan A and the Term Loan B.

"margin stock" shall have the meaning ascribed thereto in Section 4.1(n) hereof.

"Materially Adverse Effect" shall mean a material adverse effect upon or change in (a) the properties, assets, business, operations, financial condition or prospects of the Borrower or any of its Subsidiaries or on the ability of the Borrower or any such Subsidiary to conduct its business, (b) the ability of the Borrower, any of its Subsidiaries or any other party to a Loan Document (other than the Administrative Agent or any Lender) to perform its obligations hereunder or under any other Loan Document to which it is a party, (c) the validity or enforceability of this Agreement, the Notes or any other Loan Document, or (d) the rights or remedies of the Administrative Agent or the Lenders under this Agreement, the Notes or any other Loan Document or at law or in equity.

"Maturity Date" shall mean the Revolving Loan Maturity Date, the Term Loan A Maturity Date or the Term Loan B Maturity Date, as applicable.

"Mortgage" shall mean (i) a security instrument (whether designated as a deed of trust or a mortgage or by any similar title) executed and delivered by the Borrower or any of its Subsidiaries, in each case in form and substance satisfactory to the Administrative Agent and its counsel based on local laws or customary local mortgage or deed of trust practices, or (ii) at the Administrative Agent's option, an amendment to an existing Mortgage, in form and substance reasonably satisfactory to the Administrative Agent, adding additional property to the Real Property encumbered by such existing Mortgage.

"Multiemployer Plan" shall mean a multiemployer pension plan as defined in Section 3(37) of ERISA to which Parent, the Borrower, any of its Subsidiaries or any ERISA Affiliate is or has been required to contribute.

"Necessary Authorizations" shall mean all approvals and licenses from, and all filings and registrations with, any governmental or other regulatory authority, including, without limitation, all approvals, Licenses, filings and registrations under the Communications Act.

"Net Earnings" shall mean, as of any date with respect to the Borrower, the consolidated net income (or deficit) of the Borrower and its Subsidiaries for the period involved, after taxes

accrued and after all proper charges and reserves (excluding, however, non-recurring special charges and credits), all as determined in accordance with GAAP.

"Net Proceeds" shall mean, with respect to any Asset Sale by, or any insurance or condemnation proceeding in respect of any assets of, the Borrower or any of its Subsidiaries, as applicable, the aggregate amount of cash received for such assets (including, without limitation, any payments received for non-competition covenants, any time brokerage, consulting or management fees for services rendered on or prior to the consummation of such sale (other than such fees received in the ordinary course of business for brokerage, management or consulting services rendered after the consummation of such sale in amounts usual and customary for the services rendered), and any portion of the amount received evidenced by a promissory note or other evidence of Indebtedness issued by the purchaser), net of (a) amounts reserved, if any, for taxes payable with respect to any such sale (after application (assuming application first to such reserves) of any available losses, credits or other offsets), (b) reasonable and customary transaction costs properly attributable to such transaction and payable by the Borrower or any of its Subsidiaries (other than to an Affiliate) in connection with such Asset Sale, including, without limitation, commissions, and (c) until actually received by the Borrower or any of its Subsidiaries, any portion of the amount received held in escrow, evidenced by a promissory note or other evidence of Indebtedness, or in respect of a purchase or non-compete, consulting or management agreement or covenant or otherwise for which compensation is paid over time. Upon receipt by the Borrower or any of its Subsidiaries of (i) amounts referred to in item (c) of the preceding sentence, or (ii) if there shall occur any reduction in the tax reserves referred to in item (a) of the preceding sentence resulting in a payment to the Borrower or its Subsidiaries, such amounts shall then be deemed to be "Net Proceeds."

"Newspapers" shall mean, as of any date, the newspapers owned or operated by the Borrower or any of its Subsidiaries as of such date. As of the Agreement Date, the Newspapers are set forth on Schedule 3 attached hereto.

"Non-US Lender" shall have the meaning ascribed thereto in Section 2.8(a) hereof.

"Notes" shall mean, collectively, the Revolving Loan Notes, the Term Loan A Notes and the Term Loan B Notes.

"Obligations" shall mean all payment and performance obligations of every kind, nature and description of the Borrower, its Subsidiaries, and any other obligors to the Lenders, or the Administrative Agent, or any of them, under this Agreement and the other Loan Documents (including any interest, fees and other charges on the Loans or otherwise under the Loan Documents that would accrue but for the filing of a bankruptcy action and including Obligations to the Administrative Agent, any of the Lenders or any of their Affiliates under the Interest Rate Hedge Agreements) as they may be amended from time to time, or as a result of making the Loans, whether such obligations are direct or indirect, absolute or contingent, due or not due, contractual or tortious, liquidated or unliquidated, arising by operation of law or otherwise, now existing or hereafter arising.

"Operating Agreement" shall mean any programming agreement, time brokerage, local marketing or similar agreement, network affiliation agreement, franchise agreement, lease or other agreement of the Borrower or any of its Subsidiaries relating to the operation of a Station, a Newspaper, the Porta-Phone Paging Business or the Satellite Broadcasting Business, the termination or adverse modification of which could reasonably be expected to have a Material Adverse Effect.

"Operating Cash Flow" shall mean, as of any date for any period, (a) the Net Earnings for such period (excluding, to the extent included in Net Earnings, (i) the effect of any exchange of advertising time for non-cash consideration, such as merchandise or services, (ii) any other non-cash income or expense (including the cumulative effect of a change in accounting principles and extraordinary items) and (iii) any gains or losses from sales, exchanges and other dispositions of property not in the ordinary course of business), minus (b) any interest income, minus (c) any cash payments made in respect of Programming Obligations, plus (d) the sum of (i) depreciation on or obsolescence of fixed or capital assets and amortization of intangibles and leasehold improvements (including, without limitation, amortization in respect of Programming Obligations) for such period, plus (ii) Interest Expense in such period, plus (iii) federal, state and local income taxes in such period to the extent deducted in calculating Net Earnings in such period (other than any such taxes resulting from any gains from sales and exchanges and other distributions not in the ordinary course of business), all on a consolidated basis and computed on the accrual method. For purposes of calculating Operating Cash Flow in any period, any Acquisition or Asset Sale which occurs during such period shall be deemed to have occurred on the first day of such period.

"Ownership Interests" shall mean, as applied to any Person, any ownership interests or capital stock of such Person, regardless of class or designation, and all warrants, options, purchase rights, conversion or exchange rights, voting rights, calls or claims of any character with respect thereto, or any partnership interests, membership interest or other instruments or securities evidencing ownership of such Person, as applicable.

"Ownership Reports" shall mean, with respect to any Station, the reports and certifications filed with the FCC pursuant to 47 C.F.R. ss. 73.3615, or any comparable reports filed pursuant to any successor regulation thereto.

"Payment Date" shall mean the last day of any Interest Period.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Liens" shall mean, as applied to any Person:

(a) any Lien in favor of the Administrative Agent or any Lender given to secure the Obligations;

(b) (i) Liens on real estate or other property for taxes, assessments, governmental charges or levies not yet delinquent and (ii) Liens for taxes, assessments,

judgments, governmental charges or levies or claims the non-payment of which is being diligently contested in good faith by appropriate proceedings and for which adequate reserves have been set aside on such Person's books in accordance with GAAP, but only so long as no forfeiture, foreclosure, distraint, sale or similar proceedings have been commenced with respect thereto;

(c) statutory liens of carriers, warehousemen, mechanics, vendors, laborers and materialmen incurred in good faith in the ordinary course of business for sums not yet due or being diligently contested in good faith, if adequate reserves have been set aside on such Person's books in accordance with GAAP, or appropriate provisions shall have been made therefor, and no forfeiture, foreclosure, distraint, sale or similar proceedings have been commenced with respect thereto;

(d) Liens incurred in the ordinary course of business in connection with worker's compensation and unemployment insurance, social security obligations, assessments or government charges which are not overdue for more than sixty (60) days;

(e) restrictions on the transfer of assets of the Borrower or its Subsidiaries imposed by the Communications Act and any regulations thereunder;

(f) easements, rights-of-way, zoning restrictions, leases, licenses, reservations or restrictions on use and other similar encumbrances on the use of real property which do not materially interfere with the ordinary conduct of the business of such Person or the use or value of such property;

(g) (i) Liens reflected by Uniform Commercial Code financing statements filed in respect of Capitalized Lease Obligations permitted pursuant to Section 7.1(i) hereof and true leases of the Borrower or any of its Subsidiaries and (ii) Liens evidencing Indebtedness permitted by Section 7.1(c) hereof;

(h) Liens to secure performance of statutory obligations, surety or appeal bonds, performance bonds, bids, tenders or escrow deposits in connection with Acquisitions and, in each case, in the ordinary course of business;

(i) judgment Liens which do not result in an Event of Default under Section 8.1(h) hereof;

(j) Liens existing on the Agreement Date as set forth in Schedule 2 hereof; and

(k) Liens approved by the Administrative Agent and set forth in any title policy insuring the interest of the Administrative Agent in any Collateral, or set forth in title report, title examination or similar document with respect to any of the Collateral.

"Person" shall mean an individual, corporation, limited liability company, association, partnership, joint venture, trust or estate, an unincorporated organization, a government or any agency or political subdivision thereof, or any other entity.

"Plan" shall mean an employee benefit plan within the meaning of Section 3(3) of ERISA or any other employee benefit plan maintained for employees of any Person or any affiliate of such Person.

"Porta-Phone Paging Business" shall mean, as of any date, the portable telephone paging business owned or operated by the Borrower or any of its Subsidiaries as of such date.

"Prior Loan Agreement" shall mean that certain Amended and Restated Credit Agreement dated as of July 31, 1998 by and among Gray Communications Systems, Inc., as Borrower, NationsBank, N.A., as Syndication Agent and Administrative Agent, Key Corporate Capital Inc., as Documentation Agent, and the Lenders party thereto as amended by that certain First Amendment thereto dated as of November 13, 1998 and that certain Second Amendment thereto dated as of March 3, 1999.

"Pro Forma Debt Service" shall mean, as of any date, the sum of, (a) all required principal payments of Revolving Loans to be made pursuant to scheduled Revolving Commitment reductions pursuant to Section 2.5 hereof during the four (4) quarter period following such date, plus (b) all principal payments required to be made on Term Loan A or Term Loan B pursuant to Section 2.7 during such subsequent four (4) quarter period, plus (c) all principal payments required to be made by the Borrower and its Subsidiaries on Total Debt (other than the Loans) during such subsequent four (4) quarter period, plus (d) all Interest Expense during such subsequent four (4) quarter period. In calculating Pro Forma Debt Service, (i) the interest rate in effect in such subsequent period on any Indebtedness which does not bear interest at a rate which is fixed for the entire subsequent period shall be deemed to be the interest rate in effect on such Indebtedness as of the date of determination, and (ii) for the purpose of determining the amount of principal payments required on the Term Loan A or Term Loan B pursuant to Section 2.7 hereof in future periods, it shall be assumed that the principal amount of such Loans outstanding as of the date of determination will be outstanding for the subsequent four (4) quarter period, subject to any required principal payments.

"Pro Forma Debt Service Coverage Ratio" shall mean, as of any date, the ratio of (a) Operating Cash Flow for the four (4) fiscal quarter period then ended or most recently ended to (b) Pro Forma Debt Service as of the end of the same four (4) quarter period.

"Programming Obligations" means all direct or indirect monetary liabilities, contingent or otherwise, with respect to contracts for television broadcast rights relating to television series or other programs produced or distributed for television release.

"Program Payments" shall mean, as of any date for any period, the sum of all cash payments actually made by or on behalf of the Borrower and its Subsidiaries during the period involved with respect to or on account of Programming Obligations.

"Real Property" shall mean any and all real property (including all buildings, fixtures or other improvements located thereon) now, hereafter or heretofore owned, leased, operated or used by the Borrower or any of its Subsidiaries or any of their respective predecessors or Affiliates. The Real Property as of the Agreement Date is set forth on Schedule 11 attached hereto.

"Register" shall have the meaning ascribed thereto in Section 11.5(g) hereof.

"Registered Noteholder" shall mean each Non-U.S. Lender that holds a Registered Note pursuant to Section 2.8(a) hereof or registers its Loans pursuant to Section 11.5(g) hereof.

"Registered Notes" shall mean those certain Notes that have been issued in registered form in accordance with Sections 2.8(a) and 11.5(g) hereof and each of which bears the following legend: "This is a Registered Note, and this Registered Note and the Loans evidenced hereby may be assigned or otherwise transferred in whole or in part only by registration of such assignment or transfer on the Register and in compliance with all other requirements provided for in the Loan Agreement."

"Release" shall mean any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Materials into the indoor or outdoor environment (including, without limitation, the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Materials), including the movement of any Hazardous Materials through the air, soil, surface water or groundwater.

"Reportable Event" shall mean, with respect to any Employee Pension Plan, an event described in Section 4043(b) of ERISA.

"Request for Advance" shall mean a certificate designated as a "Request for Advance," signed by an Authorized Signatory of the Borrower requesting an Advance, Continuation or Conversion hereunder, which shall be in substantially the form of Exhibit E attached hereto, and shall, among other things, (i) specify the date of such Advance, Continuation or Conversion, which shall be a Business Day, the amount and type of Advance (LIBOR or Base Rate), and, with respect to LIBOR Advances, the Interest Period selected by the Borrower, (ii) state that there shall not exist, on the date of the requested Advance and after giving effect thereto, a Default or Event of Default, and (iii) the Applicable Margin then in effect.

"Request for Issuance of Letter of Credit" shall mean any certificate signed by an Authorized Signatory of the Borrower requesting that the Issuing Bank issue a Letter of Credit hereunder, which certificate shall be in substantially the form of Exhibit F attached hereto and shall, among other things, specify (a) that the requested Letter of Credit is either a Commercial Letter of Credit or a Standby Letter of Credit, (b) the stated amount of the Letter of Credit, (c) the effective date for the issuance of the Letter of Credit (which shall be a Business Day), (d) the date on which the Letter of Credit is to expire (which shall be a Business Day), (e) the Person for

whose benefit such Letter of Credit is to be issued, and (f) other relevant terms of such Letter of Credit.

"Required Lenders" shall mean, at any time, the Lenders holding at least sixty-six and two-thirds percent (66-2/3%) of the then aggregate unpaid principal amount of the Loans, or, if no Loan is then outstanding, the Lenders having at least sixty-six and two-thirds percent (66-2/3%) of the Commitments.

"Restricted Payment" shall mean (a) any direct or indirect distribution, dividend or other payment to any Person (other than to the Borrower or any of its Subsidiaries) on account of any Ownership Interests of the Borrower or any of its Subsidiaries (other than dividends payable solely in Ownership Interests of such Person and splits thereof), (b) any payment of principal of, or interest on, or payment into a sinking fund for the retirement of, or any defeasance of Subordinated Debt, or (c) any management, consulting or similar fees, or any interest thereon, payable by the Borrower or any of its Subsidiaries to any of their respective Affiliates (other than such fees and interest payable to (1) the Borrower or any of its Subsidiaries or (2) Bull Run Corporation).

"Restricted Purchase" shall mean any payment (including, without limitation, any sinking fund payment, prepayment or installment payment) on account of the purchase, redemption, defeasance or other acquisition or retirement of any Ownership Interests of or Subordinated Debt of the Borrower or any of its Subsidiaries, including, without limitation, any warrants or other rights or options to acquire shares of Ownership Interests of the Borrower or of any of its Subsidiaries or any loan, advance, release or forgiveness of Indebtedness by the Borrower or any of its Subsidiaries to any partner, shareholder or Affiliate (other than to the Borrower or any of its Subsidiaries) of any such Person.

"Revolving Loan Commitment" shall mean the several obligations of the Lenders to fund their respective portion of the Revolving Loans to the Borrower in accordance with their respective Commitment Ratios in the aggregate sum as of the Agreement Date of up to \$100,000,000.00, pursuant to the terms hereof, as such obligations may be reduced from time to time pursuant to the terms hereof.

"Revolving Loans" shall mean, collectively, those amounts advanced by the Lenders to the Borrower under the Revolving Loan Commitment not to exceed the Revolving Loan Commitment at any one time and evidenced by the Revolving Loan Notes.

"Revolving Loan Maturity Date" shall mean June 30, 2005, or such earlier date as payment of the Revolving Loans shall be due (whether by acceleration, reduction of the Revolving Loan Commitment to zero or otherwise).

"Revolving Loan Notes" shall mean, collectively, those certain amended and restated promissory notes in the aggregate original principal amount of \$100,000,000.00, and issued to each of the Lenders by the Borrower with respect to the Revolving Loan Commitment, each one substantially in the form of Exhibit G-1 attached hereto, any other promissory note issued by the

Borrower to evidence the Revolving Loans pursuant to this Agreement, and any extensions, renewals or amendments to, or replacements of, the foregoing.

"Revolving Loan Repayment Proceeds" shall mean the product of (a) the Revolving Loan Repayment Ratio times (b) the applicable Net Proceeds amount.

"Revolving Loan Repayment Ratio" shall mean, as of any date, the ratio of (a) (i) the sum of the Revolving Loans and Letter of Credit Obligations outstanding on such date to (ii) the sum of the Loans and Letter of Credit Obligations outstanding hereunder on such date or, (b) if no Loan or Letter of Credit Obligation is then outstanding, (i) the Revolving Loan Commitment on such date to (ii) the sum of the Commitments hereunder on such date.

"Satellite Broadcasting Business" shall mean, as of any date, the satellite broadcasting business owned or operated by the Borrower or any of its Subsidiaries on such date.

"Security Documents" shall mean, collectively, the Borrower Pledge Agreement, the Borrower Security Agreement, any Subsidiary Guaranty, any Subsidiary Pledge Agreement, any Subsidiary Security Agreement, any Mortgage, any Assignment of General Partner Interests, any Assignment of Limited Partner Interests, any other agreement or instrument providing Collateral for the Obligations whether now or hereafter in existence, and any filings, instruments, agreements and documents related thereto or to this Agreement, and providing the Administrative Agent, for the benefit of the Lenders, with Collateral for the Obligations.

"Security Interest" shall mean, collectively, all Liens in favor of the Administrative Agent, for the benefit of the Lenders, created hereunder or under any of the Security Documents to secure the Obligations.

"Senior Debt" shall mean, as of any date, (a) Total Debt on such date minus (b) Subordinated Debt on such date.

"Senior Leverage Ratio" shall mean, as of any date, the ratio of (a) Senior Debt as of such date to (b) Operating Cash Flow for the four (4) quarter period then ended or most recently ended.

"Standby Letter of Credit shall mean a letter of credit issued to support obligations of the Borrower or its Subsidiaries incurred in the ordinary course of business, and which is not a Commercial Letter of Credit.

"Station" shall mean, collectively (i) each of the television stations owned and operated by the Borrower and its Subsidiaries on the Agreement Date as set forth in Schedule 3 attached hereto and (ii) any television station acquired after the Agreement Date by the Borrower or any of its Subsidiaries in accordance herewith.

"Subordinated Debt" shall mean, as of any date, the sum of (a) all Indebtedness of the Borrower and its Subsidiaries under the Subordinated Note Indenture or any agreements, notes,

instruments or documents executed or delivered in connection therewith and (b) all other Indebtedness of the Borrower the repayment of which is subordinated in right of payment to the Obligations pursuant to a subordination agreement in form and substance satisfactory to the Lenders, in each case, as of such date.

"Subordinated Note Indenture" shall mean that certain Indenture dated as of September 25, 1996 by and among the Borrower, all of its Subsidiaries and Bankers Trust Company in respect of the Borrower's 10-5/8% Senior Subordinated Notes due 2006, as the same may be amended from time to time to the extent permitted hereunder.

"Subsidiary" shall mean, as applied to any Person, (a) any corporation of which more than fifty percent (50%) of the outstanding stock (other than directors' qualifying shares) having ordinary voting power to elect a majority of its board of directors, regardless of the existence at the time of a right of the holders of any class or classes of securities of such corporation to exercise such voting power by reason of the happening of any contingency, or any partnership or limited liability company of which more than fifty percent (50%) of the outstanding partnership or ownership interests, is at the time owned directly or indirectly by such Person, or by one or more Subsidiaries of such Person, or by such Person and one or more Subsidiaries of such Person, or (b) any other entity which is directly or indirectly controlled or capable of being controlled by such Person, or by one or more Subsidiaries of such Person, or by such Person and one or more Subsidiaries of such Person. "Subsidiaries" as used herein shall mean the Subsidiaries of the Borrower unless otherwise specified. The Subsidiaries of the Borrower as of the Agreement Date are set forth on Schedule 4 hereto, except as otherwise noted thereon.

"Subsidiary Guaranty" shall mean any Subsidiary Guaranty, in favor of the Administrative Agent and the Lenders, given by each Subsidiary of the Borrower, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any similar agreement substantially in the form of Exhibit H attached hereto.

"Subsidiary Pledge Agreement" shall mean any Subsidiary Pledge Agreement made by each Subsidiary of the Borrower having one or more of its own Subsidiaries, on the one hand, in favor of the Administrative Agent, on the other hand, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any similar agreement substantially in the form of Exhibit I attached hereto.

"Subsidiary Security Agreement" shall mean any Subsidiary Security Agreement between any of the Borrower's Subsidiaries, on the one hand, and the Administrative Agent, on the other hand, or any supplement thereto or confirmation thereof, in form and substance satisfactory to the Administrative Agent, or any similar agreement substantially in the form of Exhibit J attached hereto.

"Syndication Agent" shall mean First Union National Bank.

"Term Loan A" shall mean, collectively, the amounts advanced by the Lenders to the Borrower under the Term Loan A Commitment and evidenced by the Term Loan A Notes.

"Term Loan A Commitment" shall mean the several obligations of the Lenders to advance to the Borrower, in accordance with their respective Commitment Ratios, an aggregate sum of up to \$100,000,000.00, pursuant to the terms hereof.

"Term Loan A Maturity Date" shall mean June 30, 2005, or such earlier date as payment of the Term Loan A shall be due (whether by acceleration or otherwise).

"Term Loan A Notes" shall mean, collectively, those certain amended and restated promissory notes in the aggregate original principal amount of \$100,000,000.00, and issued to each of the Lenders by the Borrower with respect to the Term Loan A Commitment, each one substantially in the form of Exhibit G-2 attached hereto, any other promissory note issued by the Borrower to evidence the Term Loan A pursuant to this Agreement, and any extensions, renewal, or amendments to, or replacements of, the foregoing.

"Term Loan A Repayment Proceeds" shall mean the product of (a) the Term Loan A Repayment Ratio times (b) the applicable Net Proceeds amount.

"Term Loan A Repayment Ratio" shall mean, as of any date, the ratio of (a) the Term Loan A outstanding on such date to (b) the sum of the Loans and Letter of Credit Obligations outstanding hereunder on such date.

"Term Loan B" shall mean, collectively, the amounts advanced by the Lenders to the Borrower under the Term Loan B Commitment and evidenced by the Term Loan B Notes.

"Term Loan B Commitment" shall mean the several obligations of the Lenders to advance to the Borrower on the Agreement Date, in accordance with their respective Commitment Ratios, an aggregate sum of up to \$100,000,000.00, pursuant to the terms hereof.

"Term Loan B Maturity Date" shall mean December 31, 2005, or such earlier date as payment of the Term Loan B shall be due (whether by acceleration or otherwise).

"Term Loan B Notes" shall mean, collectively, those certain promissory notes in the aggregate original principal amount of \$100,000,000.00, and issued to each of the Lenders by the Borrower with respect to the Term Loan B Commitment, each one substantially in the form of Exhibit G-3 attached hereto, any other promissory note issued by the Borrower to evidence the Term Loan B pursuant to this Agreement, and any extensions, renewals or amendments to, or replacements of, the foregoing.

"Term Loan B Repayment Proceeds" shall mean the product of (a) the Term Loan B Repayment Ratio times (b) the applicable Net Proceeds amount.

"Term Loan B Repayment Ratio" shall mean, as of any date, the ratio of (a) the Term Loan B outstanding on such date to (b) the sum of the Loans and Letter of Credit Obligations outstanding hereunder on such date.

"Texas Acquisition" shall mean the Acquisition by the Borrower of the Ownership Interests and assets and properties of the Texas Stations pursuant to the Texas Acquisition Agreement.

"Texas Acquisition Agreement" shall mean, collectively, (a) that certain Agreement and Plan of Merger dated as of April 13, 1999 by and among the Borrower, Gray Communications of Texas, Inc. and KWTX Broadcasting Company, (b) that certain Agreement and Plan of Merger dated as of April 13, 1999 by and among the Borrower, Gray Communications of Texas, Inc. and Brazos Broadcasting Company, and (c) that certain Asset Purchase Agreement dated as of April 26, 1999 by and among the Borrower, Gray Communications of Texas-Sherman, Inc., KXII License Corp., KXII Broadcasters, Ltd., KXII Television, Ltd., KBI 1, Inc., KBI 2, Inc., KXII Properties, Inc. and the Shareholders of KXII Properties, Inc.

"Texas Stations" shall mean KWTX-TV, Waco Texas, KBTX-TV, Bryan, Texas and KXII-TV, Sherman, Texas.

"Total Debt" shall mean, as of any date, the sum of, without duplication, (a) all Indebtedness of the Borrower and its Subsidiaries for borrowed money, including, without limitation, the Loans, (b) all Capitalized Lease Obligations of the Borrower and its Subsidiaries, (c) all other Indebtedness of the Borrower or any of its Subsidiaries represented by notes or drafts representing extensions of credit on which interest is typically charged, (d) all obligations of the Borrower or any of its Subsidiaries evidenced by bonds, debentures, notes or other similar instruments (including, without limitation, all such obligations to which any property or asset owned by the Borrower or any of its Subsidiaries is subject, whether or not the obligation secured thereby shall have been assumed), (e) all obligations of the Borrower or any of its Subsidiaries under conditional sale or other title retention agreements relating to purchased assets, (f) all obligations of the Borrower or any of its Subsidiaries which are incurred, issued or assumed as the deferred purchase price of property or services and which are payable over a period in excess of one (1) year (excluding Programming Obligations), (g) all obligations or liabilities Guaranteed by the Borrower or any of its Subsidiaries, (h) at any time after the occurrence and during the continuance of an event of default under any Interest Rate Hedge Agreement, the aggregate amount payable by the Borrower or such Subsidiary under such agreement, and (i) all obligations of the Borrower or any of its Subsidiaries as an account party to reimburse any Person in respect of letters of credit (including, without limitation, all Letters of Credit) or bankers' acceptances, in each case, as of such date.

"Upstream Dividends" shall have the meaning ascribed thereto in Section 7.18 hereof.

"Year 2000 Compliant" shall have the meaning ascribed thereto in Section 4.1(z) hereof.

"Year 2000 Problem" shall have the meaning ascribed thereto in Section 4.1(z) hereof.

Section 1.2 Interpretation. Except where otherwise specifically restricted, reference to a party to this Agreement or any other Loan Document includes that party and its successors and assigns. All capitalized terms used herein which are defined in Article 9 of the Uniform Commercial Code in effect in the State of Georgia on the date hereof and which are not otherwise defined herein shall have the same meanings herein as set forth therein. Whenever any agreement, promissory note or other instrument or document is defined in this Agreement, such definition shall be deemed to mean and include, from and after the date of any amendment, restatement, supplement, confirmation or modification thereof, such agreement, promissory note or other instrument or document as so amended, restated, supplemented, confirmed or modified. All terms defined in this Agreement in the singular shall have comparable meanings when used in the plural and vice versa. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

Section 1.3 Cross References. Unless otherwise specified, references in this Agreement and in each other Loan Document to any Article or Section are references to such Article or Section of this Agreement or such other Loan Document, as the case may be, and, unless otherwise specified, references in any Article, Section or definition to any clause are references to such clause in such Article, Section or definition.

Section 1.4 Accounting Provisions. All accounting terms used in this Agreement which are not expressly defined herein shall have the respective meanings given to them in accordance with GAAP, all computations shall be made in accordance with GAAP, and all balance sheets and other financial statements shall be prepared in accordance with GAAP. All financial or accounting calculations or determinations required pursuant to this Agreement, unless otherwise expressly provided, shall be made on a consolidated basis for the Borrower and its Subsidiaries.

ARTICLE 2

Loans and Letters of Credit

Section 2.1 The Loans.

(a) Revolving Loans. The Lenders who issued a Revolving Loan Commitment agree, severally, in accordance with their respective Commitment Ratios and not jointly, upon the terms and subject to the conditions of this Agreement to lend to the Borrower, prior to the Revolving Loan Maturity Date, amounts not at any one time outstanding to exceed, in the aggregate, the Available Revolving Loan Commitment as then in effect. The Borrower hereby acknowledges that all "Obligations" in respect of "Revolving Loans" outstanding on the Agreement Date under the "Revolving Commitment" (as such terms are defined in the Prior Loan Agreement) shall be deemed to have been made to the Borrower as Advances under the Revolving Loan Commitment hereunder and shall constitute a portion of the Obligations.

Subject to the terms and conditions hereof, the Borrower may from time to time (i) Convert a Base Rate Advance into a LIBOR Advance or a LIBOR Advance into a Base Rate Advance or (ii) Continue a LIBOR Advance as a LIBOR Advance.

(b) Term Loan A. The Lenders who issued a "Term Commitment" under, and as defined in, the Prior Loan Agreement have previously lent to the Borrower the amount in the aggregate of \$100,000,000 of which \$100,000,000.00 is outstanding on the Agreement Date. The Borrower hereby acknowledges that all "Obligations" in respect of the "Term Loan" outstanding under the "Term Commitment" (as such terms are defined in the Prior Agreement) shall be deemed to have been made to the Borrower as Advances under the Term Loan A Commitment hereunder and shall constitute a portion of the Obligations. Subject to the terms and conditions hereof, the Borrower may from time to time (i) Convert a Base Rate Advance into a LIBOR Advance or a LIBOR Advance into a Base Rate Advance or (ii) Continue a LIBOR Advance as a LIBOR Advance; provided, however, that there shall be no increase in the principal amount of the Term Loan A outstanding after the Agreement Date.

(c) Term Loan B. The Lenders who issued a Term Loan B Commitment, agree severally, in accordance with their respective Commitment Ratios, and not jointly, upon the terms and subject to the conditions of this Agreement, to lend to the Borrower on the Agreement Date an amount which does not exceed in the aggregate the Term Loan B Commitment. Subject to the terms and conditions hereof, the Borrower may from time to time (i) Convert a Base Rate Advance into a LIBOR Advance or a LIBOR Advance into a Base Rate Advance or (ii) Continue a LIBOR Advance as a LIBOR Advance; provided, however, that there shall be no increase in the principal amount of the Term Loan B outstanding after the Agreement Date.

(d) The Letters of Credit. Subject to the terms and conditions of this Agreement, the Issuing Bank agrees to issue Letters of Credit for the account of the Borrower (for itself and on behalf of its Subsidiaries) pursuant to Section 2.14 hereof in an aggregate amount not to exceed the Available Letter of Credit Commitment determined immediately prior to giving effect to the issuance thereof.

Section 2.2 Manner of Borrowing and Disbursement.

(a) Choice of Interest Rate, Etc. Any Advance shall, at the option of the Borrower, be made as a Base Rate Advance or a LIBOR Advance; provided, however, that at such time as there shall have occurred and be continuing a Default hereunder, the Borrower shall not have the right to receive, Convert an Advance to or Continue an Advance as a LIBOR Advance. Any notice given to the Administrative Agent in connection with a Request for Advance hereunder shall be given to the Administrative Agent prior to 11:00 a.m. (Atlanta, Georgia time) on any Business Day in order for such Business Day to count toward the minimum number of Business Days required.

(b) Base Rate Advances.

(i) Advances; Conversion. The Borrower shall give the Administrative Agent, (A) in the case of a request for a Base Rate Advance irrevocable telephonic notice on the date of such Advance and (B) in the case of a request to Convert a LIBOR Advance to a Base Rate Advance, at least three (3) Business Day's irrevocable prior telephonic notice, in each case, followed immediately by a Request for Advance; provided, however, that the Borrower's failure to confirm any telephonic notice with a Request for Advance shall not invalidate any notice so given if acted upon by the Administrative Agent. Upon receipt of such notice from the Borrower, the Administrative Agent shall promptly notify each Lender by telephone or telecopy of the contents thereof.

(ii) Repayments and Reborrowings. Subject to Section 2.1 hereof, the Borrower may repay or prepay a Base Rate Advance without regard to its Payment Date and, (A) upon irrevocable telephonic notice on the date of such repayment or prepayment, as applicable, followed immediately by a Request for Advance, reborrow all or a portion of the principal amount thereof as a Base Rate Advance, (B) upon at least three (3) Business Days' irrevocable prior telephonic notice followed immediately by a Request for Advance, reborrow all or a portion of the principal thereof as one or more LIBOR Advances, or (C) not reborrow all or any portion of such Base Rate Advance. On the date indicated by the Borrower, such Base Rate Advance shall be so repaid and, as applicable reborrowed. The failure to give timely notice hereunder with respect to the Payment Date of any Base Rate Advance shall be considered a request for a Base Rate Advance.

(c) LIBOR Advances.

(i) Advances. Upon request, the Administrative Agent, whose determination in absence of manifest error shall be conclusive, shall determine the available LIBOR Bases and shall notify the Borrower of such LIBOR Bases. The Borrower shall give the Administrative Agent in the case of LIBOR Advances at least three (3) Business Days' irrevocable prior telephonic notice followed immediately by a Request for Advance; provided, however, that the Borrower's failure to confirm any telephonic notice with a Request for Advance shall not invalidate any notice so given if acted upon by the Administrative Agent. Upon receipt of such notice from the Borrower, the Administrative Agent shall promptly notify each Lender by telephone or telecopy of the contents thereof.

(ii) Repayments; Conversion; Continuation. Subject to Section 2.1 hereof, at least three (3) Business Days prior to the Payment Date for each LIBOR Advance, the Borrower shall give the Administrative Agent telephonic notice followed immediately by a Request for Advance specifying whether all or a portion of such LIBOR Advance (A) is to be Continued in whole or in part as one or more LIBOR Advances, (B) is to be Converted in whole or in part to a Base Rate Advance, or (C) is to

be repaid and not Continued or Converted. The failure to give such notice shall preclude the Borrower from Continuing such Advance as a LIBOR Advance on its Payment Date and shall be considered a request for a Conversion to a Base Rate Advance. Upon such Payment Date such LIBOR Advance will, subject to the provisions hereof, be so repaid, Continued or Converted, as applicable.

(d) Notification of Lenders. Upon receipt of a Request for Advance, or a notice from the Borrower with respect to any outstanding Advance prior to the Payment Date for such Advance, the Administrative Agent shall promptly, but no later than, (i) with respect to LIBOR Advances, the close of business on the day of such notice, and (ii) with respect to Base Rate Advances, 12:30 p.m. (Atlanta, Georgia time) notify each Lender by telephone or teletype of the contents thereof and the amount of such Lender's portion of the Advance. With respect to each Request for Advance, each Lender shall, not later than 2:00 p.m. (Atlanta, Georgia time) on the date of borrowing specified in such Request for Advance, make available to the Administrative Agent at the Administrative Agent's Office, or at such account as the Administrative Agent shall designate, the amount of its portion of any Advance which represents an additional borrowing hereunder in immediately available funds.

(e) Disbursement.

(i) Prior to 3:00 p.m. (Atlanta, Georgia time) on the date of an Advance hereunder, the Administrative Agent shall, subject to the satisfaction of the conditions set forth in Article 3 hereof, disburse the amounts made available to the Administrative Agent by the Lenders in like funds by (A) transferring the amounts so made available by wire transfer pursuant to the Borrower's instructions, or (B) in the absence of such instructions, crediting the amounts so made available to the account of the Borrower maintained with the Administrative Agent.

(ii) Unless the Administrative Agent shall have received notice from a Lender prior to 2:00 p.m. (Atlanta, Georgia time) on the date of any Advance that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Advance, the Administrative Agent may assume that such Lender has made or will make such portion available to the Administrative Agent on the date of such Advance and the Administrative Agent may in its sole discretion and in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent the Lender does not make such ratable portion available to the Administrative Agent, such Lender agrees to repay to the Administrative Agent on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at the Federal Funds Rate.

(iii) If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's portion of the applicable Advance for purposes of this Agreement. If such Lender does not repay such corresponding amount immediately upon the Administrative Agent's demand

therefor, the Administrative Agent shall notify the Borrower and the Borrower shall immediately pay such corresponding amount to the Administrative Agent, with interest at the Federal Funds Rate. The failure of any Lender to fund its portion of any Advance shall not relieve any other Lender of its obligation, if any, hereunder to fund its respective portion of the Advance on the date of such borrowing, but no Lender shall be responsible for any such failure of any other Lender.

(iv) In the event that, at any time when the Borrower is not in Default and has otherwise satisfied each of the conditions in Section 3.2 hereof, a Lender for any reason fails or refuses to fund its portion of an Advance and such failure shall continue for a period in excess of thirty (30) days, then, until such time as such Lender has funded its portion of such Advance (which late funding shall not absolve such Lender from any liability it may have to the Borrower), or all other Lenders have received payment in full from the Borrower (whether by repayment or prepayment) or otherwise of the principal and interest due in respect of such Advance, such non-funding Lender shall not have the right (A) to vote regarding any issue on which voting is required or advisable under this Agreement or any other Loan Document, and such Lender's portion of the Loans shall not be counted as outstanding for purposes of determining "Required Lenders" hereunder, and (B) to receive payments of principal, interest or fees from the Borrower, the Administrative Agent or the other Lenders in respect of its portion of the Loans.

Section 2.3 Interest.

(a) On Base Rate Advances. Interest on each Base Rate Advance shall be computed on the basis of a 360-day year for the actual number of days elapsed and shall be payable at the Base Rate Basis for such Advance, in arrears on the applicable Payment Date. Interest on Base Rate Advances then outstanding shall also be due and payable on the Maturity Date.

(b) On LIBOR Advances. Interest on each LIBOR Advance shall be computed on the basis of a 360-day year for the actual number of days elapsed and shall be payable at the LIBOR Basis for such Advance, in arrears on the applicable Payment Date, and, in addition, if the Interest Period for a LIBOR Advance exceeds three (3) months, interest on such LIBOR Advance shall also be due and payable in arrears on every three-month anniversary of the beginning of such Interest Period. Interest on LIBOR Advances then outstanding shall also be due and payable on the Maturity Date.

(c) Interest if No Notice of Selection of Interest Rate Basis. If the Borrower fails to give the Administrative Agent timely notice of its selection of a LIBOR Basis, or if for any reason a determination of a LIBOR Basis for any Advance is not timely concluded, the Base Rate Basis shall apply to such Advance.

(d) Interest Upon Default. Immediately upon the occurrence of an Event of Default hereunder, the outstanding principal balance of the Loans shall bear interest at the Default Rate. Such interest shall be payable on demand by the Required Lenders and shall

accrue until the earlier of (i) waiver or cure of the applicable Event of Default, (ii) agreement by the Required Lenders (or, if applicable to the underlying Event of Default, the Lenders) to rescind the charging of interest at the Default Rate, or (iii) payment in full of the Obligations.

(e) LIBOR Contracts. At no time may the number of outstanding LIBOR Advances hereunder exceed eight (8) in the aggregate.

(f) Applicable Margin.

(i) Revolving Loans and Term Loan A. The Applicable Margin shall be determined by the Administrative Agent with respect to any Advance under the Revolving Loan Commitment or Term Loan A Commitment based upon the Leverage Ratio as of the end of the fiscal quarter most recently ended, effective as of the third (3rd) Business Day after the financial statements referred to in Section 6.1 or 6.2 hereof, as the case may be, are furnished to the Administrative Agent for such fiscal quarter, as follows:

Leverage Ratio -----	Applicable Margin for Base Rate Advances -----	Applicable Margin for LIBOR Advances -----
Greater than 7.0:1.0.	1.750%	3.000%
Greater than 6.50:1.0, but less than or equal to 7.0:1.0.	1.500%	2.750%
Greater than 6.00:1.0, but less than or equal to 6.50:1.0.	1.125%	2.375%
Greater than 5.50:1.0, but less than or equal to 6.00:1.0.	0.750%	2.000%
Greater than 5.00:1.0, but less than or equal to 5.50:1.0.	0.500%	1.750%
Greater than 4.50:1.0, but less than or equal to 5.00:1.0.	0.250%	1.500%
Less than or equal to 4.50:1.0.	0.000%	1.250%

(ii) Term Loan B. The Applicable Margin shall be determined by the Administrative Agent with respect to any Advance under the Term Loan B Commitment based upon the Leverage Ratio as of the end of the fiscal quarter most recently ended, effective as of the third (3rd) Business Day after the financial statements referred to in Section 6.1 or 6.2 hereof, as the case may be, are furnished to the Administrative Agent for such fiscal quarter, as follows:

Leverage Ratio -----	Applicable Margin for Base Rate Advances -----	Applicable Margin for LIBOR Advances -----
Greater than or equal to 6.0:1.0.	2.000%	3.250%
Less than 6.0:1.0.	1.750%	3.000%

Notwithstanding the foregoing Sections 2.3(f)(i) and (ii), if the Borrower shall fail to timely deliver to the Administrative Agent the financial statements required for the calculation of the Leverage Ratio for any fiscal quarter, then commencing with the Business Day after the date such financial statements were due and continuing through the third (3rd) Business Day following the date of delivery thereof, the Leverage Ratio for such period shall be conclusively presumed to be, and the Applicable Margin shall be calculated based upon, the highest Leverage Ratio level listed in the tables set forth above in Section 2.3(f)(i) or (ii), as applicable.

Section 2.4 Fees.

(a) Revolving Loan Commitment Fee. The Borrower agrees to pay to the Administrative Agent for the account of each of the Lenders, in accordance with such Lender's respective Commitment Ratio for the Revolving Loan Commitment a commitment fee on the Available Revolving Loan Commitment for each day from the Agreement Date through the Revolving Loan Maturity Date as follows: (a) if the Leverage Ratio is greater than 5.75:1.00 on such date, then the commitment fee shall be equal to the product of (i) the Available Revolving Loan Commitment times (ii) one-half of one percent (0.50%); and (b) if the Leverage Ratio is less than or equal to 5.75:1.00 on such date, then the commitment fee shall be equal to the product of (i) the Available Revolving Loan Commitment times (ii) one-quarter of one percent (0.25%). Such commitment fees shall be computed on the basis of a year of 360-days for the actual number of days elapsed, shall be payable quarterly in arrears on the last Business Day of each fiscal quarter commencing December 31, 1999, and shall be fully earned when due and non-refundable when paid. A final payment of all commitment fees then payable shall also be due and payable on the Revolving Loan Maturity Date.

(b) Letter of Credit Fees. The Letters of Credit shall be issued for a fee of one and one-eighth percent (1.125%) per annum of the stated amount thereof, payable upon issuance. The fee shall be payable to the Administrative Agent for the benefit of the Lenders who issued a Revolving Loan Commitment in accordance with their Commitment Ratios. If any Letter of Credit is drawn upon prior to its expiration date, the Lenders shall reimburse to the Borrower that portion of the fee allocable to the period from the date of the draw to the expiration date, calculated in accordance with the Issuing Bank's standard letter of credit procedures. In addition, the Borrower shall pay to the Issuing Bank for its own account its standard charges for the issuance of letters of credit and for draws upon letters of credit, which charges, as of the Agreement Date, are as follows: (i) \$200 per Letter of Credit, payable upon issuance; and (ii) \$100 per Letter of Credit, payable upon a draw under such Letter of Credit.

(c) Other Fees. The Borrower shall pay such other fees as are set forth in any fee letter executed by the Borrower in connection with this Agreement.

Section 2.5 Mandatory Commitment Reductions.

(a) Scheduled Reductions under the Revolving Loan Commitment. Commencing on September 30, 2000 and at the end of each fiscal quarter thereafter, the Revolving Loan Commitment as of September 29, 2000 shall be automatically and permanently reduced by the percentage amount set forth below for and on the dates indicated (which reductions are in addition to those set forth elsewhere in this Agreement):

Reduction Dates -----	Percentage Reduction to Revolving Loan Commitment as of September 29, 2000 -----
September 30, 2000 and December 31, 2000	5.000%
March 31, 2001, June 30, 2001, September 30, 2001 and December 31, 2001	3.750%
March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002	3.750%
March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003	5.000%
March 31, 2004, June 30, 2004, September 30, 2004 and December 31, 2004	6.250%
March 31, 2005 and June 30, 2005	7.500%

(b) Reduction From Net Proceeds of Asset Sales or Insurance or Condemnation Proceedings. The Revolving Loan Commitment shall be automatically and permanently reduced by an amount equal to the repayment of Revolving Loans required under Section 2.7(b)(iii) hereof; provided, however, that if there are no Loans then outstanding, the Revolving Loan Commitment shall be reduced by an amount equal to the Revolving Loan Repayment Proceeds. Reductions to the Revolving Loan Commitment under this Section 2.5(b) shall be applied to the reductions set forth in Section 2.5(a) hereof in inverse order of maturity.

Section 2.6 Voluntary Commitment Reductions. The Borrower shall have the right, at any time and from time to time after the Agreement Date, upon at least five (5) Business Days' prior written notice to the Administrative Agent, without premium or penalty, to cancel or reduce permanently all or a portion of the Revolving Loan Commitment, on a pro rata basis among the

Lenders, provided, however, that any such partial reduction shall be made in an amount not less than \$5,000,000.00 and in integral multiples of not less than \$1,000,000.00. As of the date of cancellation or reduction set forth in such notice, the Revolving Loan Commitment shall be permanently reduced to the amount stated in the Borrower's notice for all purposes herein, and the Borrower shall pay to the Administrative Agent for the Lenders the amount necessary to reduce the principal amount of the Revolving Loans then outstanding to not more than the amount of the Revolving Loan Commitment as so reduced, together with accrued interest on the amount so prepaid and commitment fees accrued through the date of the reduction with respect to the amount reduced. Reductions to the Revolving Loan Commitment under this Section 2.6 shall be applied to the reductions set forth in Section 2.5(a) hereof pro rata across maturities.

Section 2.7 Prepayments and Repayments.

(a) Prepayments. The principal amount of any Base Rate Advance may be prepaid in full or ratably in part at any time without penalty and without regard to the Payment Date for such Advance upon written notice, or telephonic notice followed immediately by written notice, to the Administrative Agent on the date of such prepayment; provided, however, that the Borrower's failure to confirm any telephonic notice with a written notice shall not invalidate any notice so given if acted upon by the Administrative Agent. LIBOR Advances may be prepaid prior to the applicable Payment Date, upon three (3) Business Days' prior written notice, or telephonic notice followed immediately by written notice, to the Administrative Agent; provided, however, that the Borrower shall reimburse the Lenders and the Administrative Agent, on the earlier of demand by the applicable Lender or the Maturity Date, for any loss or reasonable out-of-pocket expense incurred by any Lender or the Administrative Agent in connection with such prepayment, as set forth in Section 2.10 hereof; provided further, however, that the Borrower's failure to confirm any telephonic notice with a written notice shall not invalidate any notice so given if acted upon by the Administrative Agent. Any prepayment hereunder shall be in amounts of not less than \$500,000.00 and in integral multiples of \$500,000.00. Revolving Loans prepaid pursuant to this Section 2.7(a) may be reborrowed, subject to the terms and conditions hereof. Any Term Loan A or Term Loan B prepaid pursuant to this Section 2.7(a) may not be reborrowed. Amounts prepaid shall be paid together with accrued interest on the amount so prepaid accrued through the date of such prepayment.

(b) Repayments. The Borrower shall repay the Loans as follows:

(i) Scheduled Repayments.

(A) Term Loan A. Commencing on December 31, 1999, the principal balance of Term Loan A outstanding on December 30, 1999 shall be repaid in consecutive quarterly installments on the last day of each fiscal quarter ending during the periods set forth below until paid in full in such amounts as follows:

Repayment Dates -----	Percentage of Principal of Term Loan A outstanding on December 30, 1999 Due on each Repayment Date -----
December 31, 1999	2.500%
March 31, 2000, June 30, 2000, September 30, 2000 and December 31, 2000	2.500%
March 31, 2001, June 30, 2001, September 30, 2001 and December 31, 2001	2.500%
March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002	4.375%
March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003	4.375%
March 31, 2004, June 30, 2004 September 30, 2004 and December 31, 2004	5.31225%
March 31, 2005 and June 30, 2005	10.625%

(B) Term Loan B. Commencing on March 31, 2001, the principal balance of Term Loan B outstanding on March 30, 2001 shall be repaid in consecutive quarterly installments on the last day of each fiscal quarter ending during the periods set forth below until paid in full in such amounts as follows:

Percentage of Principal of
Term Loan B outstanding on
March 30, 2001 Due on each Repayment Date

Repayment Dates -----	Percentage of Principal of Term Loan B outstanding on March 30, 2001 Due on each Repayment Date -----
March 31, 2001, June 30, 2001, September 30, 2001 and December 31, 2001	0.250%
March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002	0.250%
March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003	0.250%
March 31, 2004, June 30, 2004, September 30, 2004 and December 31, 2004	0.250%
March 31, 2005, June 30, 2005, and September 30, 2005	0.250%
December 31, 2005	95.250%

(ii) Revolving Loans in Excess of Revolving Loan Commitment. If, at any time, the sum of the aggregate amount of the Revolving Loans and Letter of Credit Obligations outstanding shall exceed the Revolving Loan Commitment, the Borrower shall make a repayment of the principal amount of the Revolving Loans on such date in an aggregate amount equal to such excess, together with any accrued interest with respect thereto.

(iii) Repayments From Net Proceeds of Asset Sales or Insurance or Condemnation Proceedings. On the Business Day following the date of receipt by the Borrower or any of its Subsidiaries of any Net Proceeds (other than in connection with an Asset Sale permitted under Section 7.4(a) (i) or (ii) hereof), the Loans shall be automatically and permanently prepaid as set forth in Section 2.7(b)(iv) hereof in an amount equal to, in the aggregate, one-hundred percent (100%) of any Net Proceeds; provided, however, that no prepayment under this Section 2.7(b)(iii) shall occur if such Net Proceeds (A) are from an Asset Sale and are reinvested in Stations, Newspapers, the Porta-Phone Paging Business, the Satellite Broadcasting Business and other assets related to the Borrower's business within the succeeding three hundred sixty-five (365) day period or (B) are from an insurance or condemnation proceeding and are reinvested in Stations, Newspapers, the Porta-Phone Paging Business, the Satellite Broadcasting Business and other assets related to the Borrower's business within the succeeding ninety (90) day period.

(iv) Allocation of Repayment Amounts. On the Business Day of the receipt by the Borrower or any Subsidiary of any Net Proceeds, (A) the Term Loan A

then outstanding shall be prepaid by an amount equal to the Term Loan A Repayment Proceeds, (B) the Term Loan B then outstanding shall be prepaid by an amount equal to the Term Loan B Repayment Proceeds, and (C) the Revolving Loans then outstanding shall be prepaid by an amount equal to the Revolving Loan Repayment Proceeds. Amounts so repaid shall be applied to the principal of Term Loan A or Term Loan B, as applicable, in inverse order of maturity set forth in Section 2.7(b)(i) hereof.

(v) Revolving Loan Maturity Date. In addition to the foregoing, a final payment of all Revolving Loans, together with accrued interest and fees with respect thereto, shall be due and payable on the Revolving Loan Maturity Date.

(vi) Term Loan A Maturity Date. In addition to the foregoing, a final payment of Term Loan A, together with accrued interest and fees with respect thereto, shall be due and payable on the Term Loan A Maturity Date.

(vii) Term Loan B Maturity Date. In addition to the foregoing, a final payment of Term Loan B, together with accrued interest and fees with respect thereto and all other Obligations then outstanding, shall be due and payable on the Term Loan B Maturity Date.

Section 2.8 Notes; Loan Accounts.

(a) The Loans shall be repayable in accordance with the terms and provisions set forth herein and shall be evidenced by the Notes. One (1) Revolving Loan Note, one (1) Term Loan A Note and one (1) Term Loan B Note shall be payable to the order of each Lender, in accordance with such Lender's respective applicable Commitment Ratio. The Revolving Loan Notes, Term Loan A Notes and the Term Loan B Notes shall be issued by the Borrower to the Lenders and shall be duly executed and delivered by one (1) or more Authorized Signatories. Any Lender (i) which is not a United States Person (a "Non-U.S. Lender") and (ii) which would become completely exempt from withholding of United States federal income taxes in respect of payment of any obligations due to such Lender hereunder or under the Notes or any other Loan Document relating to any of its Loans if such Loans were in registered form for United States federal income tax purposes may request the Borrower (through the Administrative Agent), and the Borrower agrees thereupon, at the cost and expense of such Lender, to register such Loans as provided in Section 11.5(g) hereof and to issue to such Lender Notes evidencing such Loans as Registered Notes or to exchange Notes evidencing such Loans for new Registered Notes, as applicable. Registered Notes may not be exchanged for Notes that are not in registered form.

(b) Each Lender may open and maintain on its books in the name of the Borrower a loan account with respect to its portion of the Loans and interest thereon. Each Lender which opens such a loan account shall debit such loan account for the principal amount of its portion of each Advance made by it and accrued interest thereon, and shall credit such loan account for each payment on account of principal of or interest on its Loans. The records of a Lender with respect to the loan account maintained by it shall be prima facie evidence of its portion of the Loans and accrued interest thereon absent manifest error, but the failure of any

Lender to make any such notations or any error or mistake in such notations shall not affect the Borrower's repayment obligations with respect to such Loans.

Section 2.9 Manner of Payment.

(a) Each payment (including any prepayment) by the Borrower on account of the principal of or interest on the Loans, commitment fees and any other amount owed to the Lenders or the Administrative Agent or any of them under this Agreement or the Notes shall be made not later than 1:00 p.m. (Atlanta, Georgia time) on the date specified for payment under this Agreement to the Administrative Agent at the Administrative Agent's Office, for the account of the Lenders or the Administrative Agent, as the case may be, in lawful money of the United States of America in immediately available funds. Any payment received by the Administrative Agent after 1:00 p.m. (Atlanta, Georgia time) shall be deemed received on the next Business Day. Receipt by the Administrative Agent of any payment intended for any Lender or Lenders hereunder prior to 1:00 p.m. (Atlanta, Georgia time) on any Business Day shall be deemed to constitute receipt by such Lender or Lenders on such Business Day. In the case of a payment for the account of a Lender, the Administrative Agent will promptly, but no later than the close of business on the date such payment is deemed received, thereafter distribute the amount so received in like funds to such Lender. If the Administrative Agent shall not have received any payment from the Borrower as and when due, the Administrative Agent will promptly notify the Lenders accordingly. In the event that the Administrative Agent shall fail to make distribution to any Lender as required under this Section 2.9, the Administrative Agent agrees to pay such Lender interest from the date such payment was due until paid at the Federal Funds Rate.

(b) The Borrower agrees to pay principal, interest, fees and all other amounts due hereunder or under the Notes without set-off or counterclaim or any deduction whatsoever. So long as the applicable Lender has complied with Section 2.13 hereof, the Borrower agrees to pay principal, interest, fees and all other amounts due hereunder, under the Notes or under any other Loan Document free and clear of all taxes, levies and withholding. So long as the applicable Lender has complied with Section 2.13 hereof, if the Borrower is required by Applicable Law to deduct any taxes from or in respect of any sum payable to the such Lender hereunder, under any Note or under any other Loan Document: (i) the sum payable hereunder or thereunder, as applicable, shall be increased to the extent necessary to provide that, after making all required deductions (including deductions applicable to additional sums payable under this Section 2.9(b)), the Administrative Agent or such Lender, as applicable, receives an amount equal to the sum it would have received had no such deductions been made; (ii) the Borrower shall make such deductions from such sums payable hereunder or thereunder, as applicable, and pay the amount so deducted to the relevant taxing authority as required by Applicable Law; and (iii) the Borrower shall provide the Administrative Agent or such Lender, as applicable, with evidence satisfactory to the Administrative Agent or such Lender, as applicable, that such deducted amounts have been paid to the relevant taxing authority. Before making any such deductions, such Lender shall designate a different lending office and may take such alternative courses of action if such designation or alternative courses of action will avoid the need for such deductions and will not in the good faith judgment of such Lender be otherwise disadvantageous to such Lender.

(c) Subject to any contrary provisions in the definition of Interest Period, if any payment under this Agreement or any of the other Loan Documents is specified to be made on a day which is not a Business Day, it shall be made on the next Business Day, and such extension of time shall in such case be included in computing interest and fees, if any, in connection with such payment.

(d) Prior to the declaration of an Event of Default under Section 8.2 hereof, if some but less than all amounts due from the Borrower are received by the Administrative Agent with respect to the Obligations, the Administrative Agent shall distribute such amounts in the following order of priority, all in accordance where applicable with the respective Commitment Ratios of the Lenders for the applicable Commitment: first, to the payment of any fees or expenses then due and payable to the Administrative Agent, the Issuing Bank and the Lenders, or any of them; second, to the payment of interest then due and payable on the Loans; third, to the payment of all other amounts not otherwise referred to in this Section 2.9(d) then due and payable to the Administrative Agent, the Issuing Bank and the Lenders, or any of them, hereunder or under the Notes, the Letters of Credit or any other Loan Document; fourth, to the payment of principal then due and payable on the Loans; fifth, to any other Obligations not otherwise referred to in this Section 2.9(d) until all such Obligations are paid in full; sixth, to damages incurred by the Administrative Agent, the Issuing Bank or the Lenders, or any of them, by reason of any breach hereof or of any other Loan Document; and seventh, as otherwise required by Applicable Law.

Section 2.10 Reimbursement.

(a) Whenever any Lender shall sustain or incur any losses or reasonable out-of-pocket expenses in connection with (i) failure by the Borrower to borrow, Continue or Convert any LIBOR Advance after having given notice of its intention to borrow, Continue or Convert such Advance in accordance with Section 2.2 hereof (whether by reason of the Borrower's election not to proceed or the non-fulfillment of any of the conditions set forth in Article 3), or (ii) prepayment (or failure to prepay after giving notice thereof) of any LIBOR Advance in whole or in part for any reason, the Borrower agrees to pay to such Lender, upon the earlier of such Lender's demand or the Maturity Date, an amount sufficient to compensate such Lender for all such losses and out-of-pocket expenses. Such Lender's good faith determination of the amount of such losses or out-of-pocket expenses, as set forth in writing and accompanied by calculations in reasonable detail demonstrating the basis for its demand, shall be presumptively correct absent manifest error.

(b) Losses subject to reimbursement hereunder shall include, without limitation, expenses incurred by any Lender or any participant of such Lender permitted hereunder in connection with the re-employment of funds prepaid, paid, repaid, not borrowed, or not paid, as the case may be, and will be payable whether the Maturity Date is changed by virtue of an amendment hereto (unless such amendment expressly waives such payment) or as a result of acceleration of the Obligations.

Section 2.11 Pro Rata Treatment.

(a) Advances. Each Advance under the Revolving Loan Commitment from the Lenders hereunder made on or after the Agreement Date, shall be made pro rata on the basis of the respective Commitment Ratios of the Lenders. On the Agreement Date, each Advance from the Lenders under each of the Term Loan A Commitment and the Term Loan B Commitment shall be made pro rata on the basis of the respective Commitment Ratios of the Lenders.

(b) Payments. Each payment and prepayment of principal of the Loans, and, except as provided in each of Section 2.2(e) and Article 10 hereof, each payment of interest on the Loans, shall be made to the Lenders pro rata on the basis of their respective unpaid principal amounts outstanding under the applicable Notes immediately prior to such payment or prepayment. If any Lender shall obtain any payment (whether involuntary, through the exercise of any right of set-off, or otherwise) on account of the Loans in excess of its ratable share of the applicable Loans under its applicable Commitment Ratio, such Lender shall forthwith purchase from the other Lenders such participations in the portion of the applicable Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.11(b) may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.12 Capital Adequacy. If after the date hereof, the adoption of any Applicable Law regarding the capital adequacy of banks or bank holding companies, or any change in Applicable Law (whether adopted before or after the Agreement Date) or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Lender with any directive regarding capital adequacy (whether or not having the force of law) of any such governmental authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on any Lender's capital as a consequence of its obligations hereunder with respect to the Loans and the Revolving Loan Commitment to a level below that which it could have achieved but for such adoption, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy immediately before such adoption, change or compliance and assuming that such Lender's capital was fully utilized prior to such adoption, change or compliance) by an amount reasonably deemed by such Lender to be material, then, upon the earlier of demand by such Lender or the Maturity Date, the Borrower shall promptly pay to such Lender such additional amounts as shall be sufficient to compensate such Lender for such reduced return, together with interest on such amount from the fourth (4th) Business Day after the date of demand or the Maturity Date, as applicable, until payment in full thereof at the Default Rate. A certificate of such Lender setting forth the amount to be paid to such Lender by the Borrower as a result of any event referred to in this paragraph

and supporting calculations in reasonable detail shall be presumptively correct absent manifest error.

Section 2.13 Lender Tax Forms. On or prior to the Agreement Date, and prior to the date on which any Person becomes a Lender hereunder, and from time to time thereafter if required by Applicable Law due to a change in circumstances or if reasonably requested by the Borrower or the Administrative Agent (unless such Lender is unable to do so by reasons of change in Applicable Law), each Lender organized under the laws of a jurisdiction outside the United States shall provide the Administrative Agent and the Borrower with (i) an accurate and duly completed United States Internal Revenue Service Form 4224 or Form 1001, as the case may be, and Form W-8 or Form W-9, as the case may be, or other applicable or successor form, certificate or document prescribed by the United States Internal Revenue Service certifying as to such Lender's entitlement to full exemption from United States withholding tax with respect to all payments to be made to such Lender hereunder or under any Note or other Loan Document, or, (ii) in the case of a Lender that is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code and cannot deliver either Internal Revenue Service Form 1001 or 4224 pursuant to clause (i) above, (A) an accurate and duly completed United States Internal Revenue Service Form W-8, or other applicable or successor form, certificate or document prescribed by the United States Internal Revenue Service certifying to such Lender's foreign status and (B) a certificate certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to all payments hereunder or under any Note or other Loan Document. In the event that the Borrower withholds a portion of any payment hereunder or under any Note or other Loan Document in accordance with this Section 2.13, the Borrower shall provide evidence that such taxes of any nature whatsoever in respect of this Agreement, any Loan or any Note or other Loan Document shall have been paid to the appropriate taxing authorities by delivery to the Lender on whose account such payment was made of the official tax receipts or notarized copies of such receipts within thirty (30) days after payment of such tax. If the Borrower fails to make any such payment when due, the Borrower shall indemnify the Lenders for any incremental taxes, interest or penalties that may become payable by any Lender as a result of any such failure. For any period with respect to which a Lender has failed to provide the Borrower with the appropriate form described above (other than if such failure is due to a change in Applicable Law occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification with respect to withholding taxes imposed by the United States and the Borrower shall be allowed to deduct from payments to such Lender hereunder and under any Note or other Loan Document, the amount of any such withholding taxes paid by the Borrower.

Section 2.14 Letters of Credit.

(a) Subject to the terms and conditions hereof, the Issuing Bank, on behalf of the Lenders, and in reliance on the agreements of the Lenders set forth in Section 2.14(d) hereof, hereby agrees to issue one or more Letters of Credit up to an aggregate face amount equal to the Available Letter of Credit Commitment determined immediately prior to giving effect to the issuance thereof; provided, however, that the Issuing Bank shall not issue any Letter of Credit unless the conditions precedent to the issuance thereof set forth in Section 3.3 hereof have been

satisfied, and shall have no obligation to issue any Letter of Credit if any Default then exists or would be caused thereby or if, after giving effect to such issuance, the Available Revolving Loan Commitment would be less than zero; and provided further, however, that at no time shall the total Letter of Credit Obligations outstanding hereunder exceed \$15,000,000.00. Each Letter of Credit shall (1) be denominated in United States dollars, and (2) expire no later than the earlier to occur of (A) the Revolving Loan Maturity Date or (B) 364-days after its date of issuance (but may contain provisions for automatic renewal; provided that no Default or Event of Default exists on the renewal date or would be caused by such renewal). Each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 and, to the extent not inconsistent therewith, the laws of the State of Georgia. The Issuing Bank shall not at any time be obligated to issue, or cause to be issued, any Letter of Credit if such issuance would conflict with, or cause the Issuing Bank to exceed any limits imposed by, any Applicable Law. If a Letter of Credit provides that it is automatically renewable unless notice is given by the Issuing Bank that it will not be renewed, the Issuing Bank shall not be bound to give a notice of non-renewal unless directed to do so by the Required Lenders at least sixty-five (65) days prior to the then scheduled expiration date of such Letter of Credit.

(b) The Borrower may from time to time request the issuance of, and be provided with by the Issuing Bank, Letters of Credit. The Borrower shall execute and deliver to the Administrative Agent and the Issuing Bank a Request for Issuance of Letter of Credit for each Letter of Credit to be issued by the Issuing Bank, not later than 12:00 noon (Atlanta, Georgia time) on the fifth (5th) Business Day preceding the date on which the requested Letter of Credit is to be issued, or such shorter notice as may be acceptable to the Issuing Bank and the Administrative Agent. Upon receipt of any such Request for Issuance of Letter of Credit, subject to satisfaction of all conditions precedent thereto as set forth in Section 3.3 hereof, the Issuing Bank shall process such Request for Issuance of Letter of Credit and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby. The Issuing Bank shall furnish a copy of such Letter of Credit to the Borrower and the Administrative Agent following the issuance thereof. The Borrower shall pay or reimburse the Issuing Bank for normal and customary costs and expenses incurred by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering the Letters of Credit.

(c) At such time as the Administrative Agent shall be notified by the Issuing Bank that the beneficiary under any Letter of Credit has drawn on the same, the Administrative Agent shall promptly notify the Borrower and each Lender, by telephone or telecopy, of the amount of the draw and, in the case of each Lender, such Lender's portion of such draw amount as calculated in accordance with its Revolving Loan Commitment Ratio.

(d) The Borrower hereby agrees to immediately reimburse the Issuing Bank for amounts paid by the Issuing Bank in respect of draws under a Letter of Credit issued at the Borrower's request. In order to facilitate such repayment, the Borrower hereby irrevocably requests the Lenders having a Revolving Loan Commitment, and such Lenders hereby severally agree, on the terms and conditions of this Agreement (other than as provided in Article 2 hereof

with respect to the amounts of, the timing of requests for, and the repayment of Advances hereunder and in Section 3.3 hereof with respect to conditions precedent to Advances hereunder), with respect to any drawing under a Letter of Credit prior to the occurrence of an event described in Sections 8.1(f) or (g) hereof, to make an Advance (which Advance may be a LIBOR Advance if the Borrower so requests in a timely manner or may be converted to a LIBOR Advance as provided in the Loan Agreement) to the Borrower on each day on which a draw is made under any Letter of Credit and in the amount of such draw, and to pay the proceeds of such Advance directly to the Issuing Bank to reimburse the Issuing Bank for the amount paid by it upon such draw. Each Lender having a Revolving Loan Commitment shall pay its share of such Advance by paying its portion of such Advance to the Administrative Agent in accordance with Article 2 hereof and its Revolving Loan Commitment Ratio, without reduction for any set-off or counterclaim of any nature whatsoever and regardless of whether any Default or Event of Default (other than with respect to an event described in Sections 8.1 (f) or (g) hereof) then exists or would be caused thereby. If at any time that any Letters of Credit are outstanding, any of the events described in Sections 8.1 (f) or (g) hereof shall have occurred and be continuing, then each Lender having a Revolving Loan Commitment shall, automatically upon the occurrence of any such event and without any action on the part of the Issuing Bank, the Borrower, the Administrative Agent or such Lender, be deemed to have purchased an undivided participation in the face amount of all Letters of Credit then outstanding in an amount equal to such Lender's Revolving Loan Commitment Ratio, and each Lender having a Revolving Loan Commitment shall, notwithstanding such Default or Event of Default, upon a drawing under any Letter of Credit, immediately pay to the Administrative Agent for the account of the Issuing Bank, in immediately available funds, the amount of such Lender's participation (and the Issuing Bank shall deliver to such Lender a loan participation certificate dated the date of the occurrence of such event and in the amount of such Lender's Revolving Loan Commitment Ratio). The disbursement of funds in connection with a draw under a Letter of Credit pursuant to this Section 2.14(d) shall be subject to the terms and conditions of Article 2 hereof. The obligation of each Lender having a Revolving Loan Commitment to make payments to the Administrative Agent, for the account of the Issuing Bank, in accordance with this Section 2.14 shall be absolute and unconditional and no such Lender shall be relieved of its obligations to make such payments by reason of noncompliance by any other Person with the terms of the Letter of Credit or for any other reason. The Administrative Agent shall promptly remit to the Issuing Bank the amounts so received from the other Lenders. Any overdue amounts payable by the Lenders having a Revolving Loan Commitment to the Issuing Bank in respect of a draw under any Letter of Credit shall bear interest, payable on demand, at the Federal Funds Rate.

(e) The Borrower agrees that any action taken or omitted to be taken by the Issuing Bank in connection with any Letter of Credit, except for such actions or omissions as shall constitute gross negligence or willful misconduct on the part of the Issuing Bank, shall be binding on the Borrower as between the Borrower and the Issuing Bank, and shall not result in any liability of the Issuing Bank to the Borrower. The obligation of the Borrower to reimburse the Lenders for Advances made to reimburse the Issuing Bank for draws under the Letter of Credit shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances whatsoever, including, without limitation, the following circumstances:

(i) any lack of validity or enforceability of any Loan Document;

(ii) any amendment or waiver of or consent to any departure from any or all of the Loan Documents;

(iii) any improper use which may be made of any Letter of Credit or any improper acts or omissions of any beneficiary or transferee of any Letter of Credit in connection therewith;

(iv) the existence of any claim, set-off, defense or any right which the Borrower may have at any time against any beneficiary or any transferee of any Letter of Credit (or Persons for whom any such beneficiary or any such transferee may be acting) or any Lender (other than the defense of payment to such Lender in accordance with the terms of this Agreement) or any other Person, whether in connection with any Letter of Credit, any transaction contemplated by any Letter of Credit, this Agreement or any other Loan Document, or any unrelated transaction;

(v) any statement or any other documents presented under any Letter of Credit proving to be insufficient, forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(vi) the insolvency of any Person issuing any documents in connection with any Letter of Credit;

(vii) any breach of any agreement between the Borrower and any beneficiary or transferee of any Letter of Credit, provided that the same shall not have resulted from the gross negligence or willful misconduct of the Issuing Bank;

(viii) any irregularity in the transaction with respect to which any Letter of Credit is issued, including, without limitation, any fraud by the beneficiary or any transferee of such Letter of Credit, provided that the same shall not be the result of the gross negligence or willful misconduct of the Issuing Bank;

(ix) any errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they are in code, provided that the same shall not be the result of the gross negligence or willful misconduct of the Issuing Bank;

(x) any act, error, neglect, default, omission, insolvency or failure of business of any of the correspondents of the Issuing Bank, provided that the same shall not have constituted the gross negligence or willful misconduct of the Issuing Bank;

(xi) any other circumstances arising from causes beyond the control of the Issuing Bank;

(xii) payment by the Issuing Bank under any Letter of Credit against presentation of a sight draft or a certificate which does not comply with the terms of such Letter of Credit, provided that such payment shall not have constituted gross negligence or willful misconduct of the Issuing Bank; and

(xiii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, provided that such other circumstances or happenings shall not have been the result of gross negligence or willful misconduct of the Issuing Bank.

(f) If any change in Applicable Law, any change in the interpretation or administration thereof, or any change in compliance with Applicable Law by the Issuing Bank or any Lender as a result of any official request or directive of any governmental authority, central bank or comparable agency (whether or not having the force of law) shall (i) impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit, capital adequacy, assessment or other requirements or conditions against Letters of Credit issued by the Issuing Bank or against participations by any other Lender in the Letters of Credit or (ii) impose on the Issuing Bank or any other Lender any other condition regarding any Letter of Credit or any participation therein, and the result of any of the foregoing in the reasonable determination of the Issuing Bank or such Lender, as the case may be, is to increase the cost to the Issuing Bank or such Lender of issuing or maintaining any Letter of Credit or purchasing or maintaining any participation therein, as the case may be, by an amount (which amount shall be reasonably determined) deemed by the Issuing Bank or such Lender to be material, and the designation of a different lending office will not avoid the need for additional compensation, then, on request by the Issuing Bank or such Lender, the Borrower shall pay, within ten (10) days after demand, the Issuing Bank or such Lender, as the case may be, such additional amount or amounts as the Issuing Bank or such Lender, as the case may be, so determines will compensate it for such increased costs. A certificate of the Issuing Bank or such Lender setting forth the amount, and in reasonable detail the basis for the Issuing Bank or such Lender's determination of such amount, to be paid to the Issuing Bank or such Lender by the Borrower as a result of any event referred to in this Section 2.14(f) shall, absent manifest error, be conclusive.

(g) Each Lender having a Revolving Loan Commitment shall be responsible for its pro rata share (based on such Lender's Revolving Loan Commitment Ratio) of any and all reasonable out-of-pocket costs, expenses (including, without limitation, reasonable legal fees) and disbursements which may be incurred or made by the Issuing Bank in connection with the collection of any amounts due under, the administration of, or the presentation or enforcement of any rights conferred by any Letter of Credit, the Borrower's or any guarantor's obligations to reimburse or otherwise. In the event the Borrower shall fail to pay such expenses of the Issuing Bank within ten (10) days after demand for payment by the Issuing Bank, each Lender having a Revolving Loan Commitment shall thereupon pay to the Issuing Bank its pro rata share (based on such Lender's Revolving Loan Commitment Ratio) of such expenses within five (5) days from the date of the Issuing Bank's notice to the Lenders having a Revolving Loan Commitment

of the Borrower's failure to pay; provided, however, that if the Borrower or any guarantor shall thereafter pay such expense, the Issuing Bank will repay to each Lender having a Revolving Loan Commitment Ratio the amounts received from such Lender hereunder.

(h) The Borrower agrees that each Advance by the Lenders having a Revolving Loan Commitment to reimburse the Issuing Bank for draws under any Letter of Credit, shall, for all purposes hereunder, be deemed to be an Advance under the Revolving Loan Commitment to the Borrower and shall be payable and bear interest in accordance with all other Loans to the Borrower.

(i) The Borrower will indemnify and hold harmless the Administrative Agent, the Issuing Bank and each other Lender and each of their respective employees, representatives, officers and directors from and against any and all claims, liabilities, obligations, losses (other than loss of profits), damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including reasonable attorneys' fees, but excluding taxes) which may be imposed on, incurred by or asserted against the Administrative Agent, the Issuing Bank or any such other Lender in any way relating to or arising out of the issuance of a Letter of Credit, except that the Borrower shall not be liable to the Administrative Agent, the Issuing Bank or any such Lender for any portion of such claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or willful misconduct of the Administrative Agent, the Issuing Bank or such Lender, as the case may be, as determined by a non-appealable judicial order. This Section 2.14(i) shall survive termination of this Agreement.

ARTICLE 3

Conditions Precedent

Section 3.1 Conditions Precedent to Effectiveness of Agreement. The obligation of the Lenders to undertake the Commitments and the effectiveness of this Agreement are subject to the prior or contemporaneous fulfillment of each of the following conditions:

(a) The Administrative Agent and the Lenders shall have received each of the following:

- (i) this Agreement duly executed;
- (ii) duly executed Notes;
- (iii) duly executed Borrower Pledge Agreement;

(iv) duly executed Borrower Security Agreement, together with duly executed appropriate Uniform Commercial Code financing statement forms to the extent requested by the Administrative Agent;

(v) duly executed Subsidiary Guaranties;

(vi) duly executed Subsidiary Pledge Agreements;

(vii) duly executed (A) Assignments of General Partner Interests and (B) Assignments of Limited Partner Interests, each together with duly executed appropriate Uniform Commercial Code financing statement forms to the extent requested by the Administrative Agent;

(viii) duly executed Subsidiary Security Agreements, together with duly executed appropriate Uniform Commercial Code financing statement forms to the extent requested by the Administrative Agent;

(ix) duly executed Mortgages, or confirmations thereof, with respect to the Real Property of the Borrower and its Subsidiaries, including, without limitation, the Real Property acquired in the Texas Acquisition, together with duly executed appropriate Uniform Commercial Code financing statement forms, appropriate surveys and title insurance to the extent requested by the Administrative Agent;

(x) the loan certificate of the Borrower dated as of the Agreement Date, in substantially the form attached hereto as Exhibit K-1, including a certificate of incumbency with respect to each Authorized Signatory of such Person, together with the following items: (A) a true, complete and correct copy of the Articles of Incorporation of the Borrower as in effect on the Agreement Date, (B) a true, complete and correct copy of the By-laws of the Borrower as in effect on the Agreement Date, (C) certificates of good standing for the Borrower issued by the Secretary of State or similar state official for the state of incorporation of the Borrower and for each state in which the Borrower is required to qualify to do business, (D) a true, complete and correct copy of the corporate resolutions of the Borrower authorizing the Borrower to execute, deliver and perform this Agreement and the other Loan Documents and (E) a true, complete and correct copy of any shareholders' agreements or voting agreements in effect with respect to the Ownership Interests of the Borrower;

(xi) a loan certificate of each Subsidiary of the Borrower (including all License Subs existing as of the Agreement Date) dated as of the Agreement Date, in substantially the form attached hereto as Exhibit K-2, including a certificate of incumbency with respect to each Authorized Signatory of such Person, together with the following items: (A) a true, complete and correct copy of the Articles or Certificate of Incorporation or Formation of such Person as in effect on the Agreement Date, (B) a true, complete and correct copy of the By-laws or Operating Agreement of such Person as in effect on the Agreement Date, (C) certificates of good standing for such Person issued by the Secretary of State or similar state official for the state of incorporation or formation of such Person and for each state in which such Person is required to qualify to do business, (D) a true, complete and correct copy of the resolutions of such Person (or another

appropriate Person) authorizing such Person to execute, deliver and perform the Loan Documents to which it is a party and (E) a true, complete and correct copy of any shareholders' agreements or voting agreements in effect with respect to the Ownership Interests of such Person;

(xii) copies of insurance binders or certificates covering the assets of the Borrower and its Subsidiaries, and otherwise meeting the requirements of Section 5.5 hereof;

(xiii) legal opinions of (A) Heyman & Sizemore, corporate counsel to the Borrower and its Subsidiaries, and (B) Venable, Baetjer, Howard and Civiletti LLP, FCC counsel, to the Borrower and its Subsidiaries, addressed to each Lender and the Administrative Agent and dated as of the Agreement Date which shall be in form and substance acceptable to the Administrative Agent;

(xiv) duly executed Certificate of Financial Condition for the Borrower and its Subsidiaries on a consolidated basis;

(xv) copies of the financial statements of the Borrower and its Subsidiaries and with respect to the Texas Acquisition for the period ended June 30, 1999, certified by the chief financial officer of the Borrower;

(xvi) financial projections and calculations after giving effect to the Texas Acquisition, in form and substance satisfactory to the Administrative Agent and the Lenders, specifically demonstrating (x) the Borrower's pro forma compliance with Sections 7.8, 7.9, 7.10, 7.11., 7.12, 7.13 and 7.14 hereof, (y) the sources and uses of funds for the Texas Acquisitions and (z) the Borrower's ability to meet its repayment obligations hereunder through the Maturity Date;

(xvii) Uniform Commercial Code lien, tax and judgment search results with respect to the Borrower and its Subsidiaries and the properties and Persons involved in the Texas Acquisition;

(xviii) evidence satisfactory to the Administrative Agent and the Lenders that there is no outstanding Indebtedness secured by, or Liens on, any of the assets and properties to be acquired in the Texas Acquisition other than Permitted Liens;

(xix) delivery to the Administrative Agent of all possessory collateral, including, without limitation, any pledged notes or pledged stock, together with the undated stock powers endorsed in blank, as applicable; and

(xx) all such other documents as the Administrative Agent may reasonably request, certified by an appropriate governmental official or an Authorized Signatory if so requested.

(b) The Administrative Agent and the Lenders shall have received evidence satisfactory to them that all Necessary Authorizations, including, without limitation, all necessary consents to the closing of this Agreement and the Texas Acquisition, to the execution, delivery and performance of this Agreement and the other Loan Documents and to the granting of Liens in all Operating Agreements and other material contracts and leases of the Borrower and its Subsidiaries, each of which shall be in form and substance satisfactory to the Administrative Agent, have been obtained or made, are in full force and effect and are not subject to any pending or, to the knowledge of the Borrower, threatened reversal or cancellation, and the Administrative Agent and the Lenders shall have received a certificate of an Authorized Signatory so stating.

(c) The Borrower shall certify to the Administrative Agent and the Lenders that each of the representations and warranties in Article 4 hereof and each other Loan Document are true and correct as of the Agreement Date and that no Default or Event of Default then exists or is continuing or will be caused by the Texas Acquisition.

(d) (i) There shall not exist as of the Agreement Date any action, suit, proceeding or investigation pending against, or, to the knowledge of the Borrower, threatened against or in any manner relating adversely to, the Borrower, any of its Subsidiaries, any of their respective properties or the transactions contemplated hereby, and (ii) no event shall have occurred and no condition exist, in each case, which, in the reasonable judgment of the Required Lenders, has had or could be expected to have a Materially Adverse Effect.

(e) The Administrative Agent shall have received evidence reasonably satisfactory to it that the Texas Acquisition has been consummated on substantially the terms set forth in the Texas Acquisition Agreement.

(f) The Borrower shall have paid to the Administrative Agent for the account of each Lender the fees, expenses and other amounts due as set forth in those letter agreements dated the Agreement Date in favor of each Lender.

Section 3.2 Conditions Precedent to Each Advance. The obligation of the Lenders to make, Convert or Continue each Advance on or after the Agreement Date is subject to the fulfillment of each of the following conditions immediately prior to or contemporaneously with such Advance:

(a) All of the representations and warranties of the Borrower under this Agreement and the other Loan Documents (including, without limitation, all representations and warranties with respect to the Borrower's Subsidiaries), which, pursuant to Section 4.2 hereof, are made at and as of the time of such Advance (except to the extent previously fulfilled in accordance with the terms hereof and to the extent relating specifically to a specific prior date), shall be true and correct at such time in all material respects, both before and after giving effect to the application of the proceeds of such Advance, and after giving effect to any updates to information provided to the Lenders in accordance with the terms of such representations and warranties, and no Default hereunder shall then exist or be caused thereby.

(b) With respect to Advances which, if funded, would increase the aggregate principal amount of the Loans outstanding hereunder, the Administrative Agent shall have received a duly executed Request for Advance.

(c) The Administrative Agent and the Lenders shall have received all such other certificates, reports, statements, opinions of counsel (if such Advance is in connection with an Acquisition) or other documents as the Administrative Agent or any Lender may reasonably request.

(d) With respect to any Advance relating to any Acquisition or the formation of any Subsidiary which is permitted hereunder, the Administrative Agent and the Lenders shall have received certified documents and instruments relating to such Acquisition or such formation of a new Subsidiary as are described in Section 5.13 hereof or otherwise required herein.

(e) (i) There shall not exist any action, suit, proceeding or investigation pending against, or, to the knowledge of the Borrower, threatened against or in any manner relating adversely to, the Borrower, any of its Subsidiaries, any of their respective properties or the transactions contemplated hereby, and (ii) no event shall have occurred and no condition exist, in each case, which, in the reasonable judgment of the Required Lenders, has had or could be expected to have a Materially Adverse Effect.

(f) On the date of such Advance, after giving effect to the Advance requested, the Borrower shall be in compliance on a pro forma basis with the covenants set forth in Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof and that no Default or Event of Default shall be caused hereunder by such Advance.

The acceptance of proceeds of any Advance which would increase the aggregate principal amount of Loans outstanding shall be deemed to be a representation and warranty by the Borrower as to compliance with this Section 3.2 on the date any such Loan is made.

Section 3.3 Conditions Precedent to Issuance of Letters of Credit. The obligation of the Issuing Bank to issue each Letter of Credit hereunder is subject to the fulfillment of each of the following conditions immediately prior to or contemporaneously with such issuance:

(a) All of the representations and warranties of the Borrower under this Agreement and the other Loan Documents (including, without limitation, all representations and warranties with respect to the Borrower's Subsidiaries), which, pursuant to Section 4.2 hereof, are made at and as of the time of such Advance (except to the extent previously fulfilled in accordance with the terms hereof and to the extent relating specifically to a specific prior date), shall be true and correct at such time in all material respects, both before and after giving effect to the issuance of the Letter of Credit, and after giving effect to any updates to information provided to the Lenders in accordance with the terms of such representations and warranties, and no Default hereunder shall then exist or be caused thereby;

(b) The Administrative Agent shall have received a duly executed Request for Issuance of Letter of Credit;

(c) The Administrative Agent and the Lenders shall have received all such other certificates, reports, statements, opinions of counsel (if such Letter of Credit is in connection with an Acquisition) or other documents as the Administrative Agent or any Lender may reasonably request;

(d) (i) There shall not exist any action, suit, proceeding or investigation pending against, or, to the knowledge of the Borrower, threatened against or in any manner relating adversely to, the Borrower, any of its Subsidiaries, any of their respective properties or the transactions contemplated hereby, and (ii) no event shall have occurred and no condition exist, in each case, which, in the reasonable judgment of the Required Lenders, has had or could be expected to have a Materially Adverse Effect.

(e) On the date of issuance of such Letter of Credit, after giving effect to the Letter of Credit requested, the Borrower shall be in compliance on a pro forma basis with the covenants set forth in Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 of this Agreement and that no Default or Event of Default shall be caused hereunder by such Letter of Credit.

ARTICLE 4

Representations and Warranties

Section 4.1 Representations and Warranties. The Borrower hereby agrees, represents and warrants, upon the Agreement Date, in favor of the Administrative Agent and each Lender, that:

(a) Organization; Ownership; Power; Qualification. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia. The Borrower has the corporate power and authority to own its properties and to carry on its business as now being and as proposed hereafter to be conducted. Each Subsidiary of the Borrower is a Person duly organized, validly existing and in good standing under the laws of the state of its incorporation or formation and has the power and authority to own its properties and to carry on its business as now being and as proposed hereafter to be conducted. The Borrower and its Subsidiaries are duly qualified, in good standing and authorized to do business in each jurisdiction in which the character of their respective properties or the nature of their respective businesses requires such qualification or authorization, except where failure to be so qualified, in the aggregate, could not reasonably be expected to have a Materially Adverse Effect.

(b) Authorization; Enforceability. The Borrower has the corporate power and has taken all necessary corporate action to authorize it to borrow hereunder, and the Borrower has the corporate power and has taken all necessary corporate action to execute, deliver and

perform this Agreement and each of the other Loan Documents to which it is a party in accordance with their respective terms, and to consummate the transactions contemplated hereby and thereby. This Agreement has been duly executed and delivered by the Borrower and is, and each of the other Loan Documents to which the Borrower is party is, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower, in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity.

(c) **Subsidiaries: Authorization; Enforceability.** The Borrower's Subsidiaries, and the Borrower's direct and indirect ownership thereof as of the Agreement Date, are as set forth on Schedule 4 attached hereto, and the Borrower has the unrestricted right to vote the issued and outstanding Ownership Interests of the Subsidiaries shown thereon; such Ownership Interests of such Subsidiaries have been duly authorized and issued and are fully paid and nonassessable. Each Subsidiary of the Borrower has the power and has taken all necessary action to authorize it to execute, deliver and perform each of the Loan Documents to which it is a party in accordance with their respective terms and to consummate the transactions contemplated by this Agreement and by such Loan Documents. Each of the Loan Documents to which any Subsidiary of the Borrower is party is a legal, valid and binding obligation of such Subsidiary enforceable against such Subsidiary in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity. The Borrower's ownership interest in each of its Subsidiaries represents a direct or indirect controlling interest of such Subsidiary for purposes of directing or causing the direction of the management and policies of each Subsidiary.

(d) **Compliance with Other Loan Documents and Contemplated Transactions.** The execution, delivery and performance, in accordance with their respective terms, by the Borrower of this Agreement and the Notes, and by the Borrower and its Subsidiaries of each of the other Loan Documents to which they are respectively party, and the consummation of the transactions contemplated hereby and thereby, do not and will not (i) require any consent or approval, governmental or otherwise, not already obtained, (ii) violate any Applicable Law respecting the Borrower or any of its Subsidiaries, (iii) conflict with, result in a breach of, or constitute a default under the certificate or articles of incorporation or by-laws or partnership agreements or operating agreements or trust agreements, as the case may be, as amended, of the Borrower or of any of its Subsidiaries, or under any material Operating Agreement, or any other material indenture, agreement, or other instrument, to which the Borrower or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound, including, without limitation, the Subordinated Note Indenture, or (iv) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by the Borrower or any of its Subsidiaries, except for Permitted Liens.

(e) **Business.** The Borrower, together with its Subsidiaries, is engaged in the business of owning and operating the Stations, Newspapers, the Porta-Phone Page Business, the Satellite Broadcasting Business and other media-related businesses.

(f) Licenses; Operating Agreements.

(i) Each of the Borrower and its Subsidiaries has all requisite power and authority, material Operating Agreements and Licenses to own and operate its properties and to carry on its businesses as now conducted and as proposed to be conducted. Schedule 3 annexed hereto, as it may be supplemented, correctly describes each of the Stations, the Newspapers, the Porta-Phone Page Business and the Satellite Broadcasting Business and sets forth all of the material Operating Agreements and Licenses of the Borrower and its Subsidiaries and correctly sets forth the termination date, if any, of each such Operating Agreements and License. A true, correct and complete copy of each material Operating Agreement and License has been made available to the Administrative Agent. Each material Operating Agreement and License was duly and validly issued pursuant to procedures which comply in all material respects with all requirements of Applicable Law. As of the Agreement Date and at all times thereafter, the Borrower and its Subsidiaries have the right to use all material Licenses required in the ordinary course of business for all Stations, the Newspapers, the Porta-Phone Paging Business and the Satellite Broadcasting Business, and each such License is in full force and effect. Each of the Borrower and its Subsidiaries has taken all material actions and performed all of its material obligations that are necessary to maintain all material Licenses without adverse modification or impairment. Except as shown on Schedule 3, no event has occurred which (i) results in, or after notice or lapse of time or both would result in, revocation, suspension, adverse modification, non-renewal, impairment, restriction or termination of or any order of forfeiture with respect to, any material License or (ii) materially and adversely affects or could reasonably be expected in the future to materially adversely affect any of the rights of the Borrower or any of its Subsidiaries thereunder. Except as set forth on Schedule 3, each FCC License is held by a License Sub. Except as set forth in Schedule 3, none of the FCC Licenses requires that any present stockholder, director, officer or employee of the Borrower or any of its Subsidiaries remain a stockholder or employee of such Person, or that any transfer of control of such Person must be approved by any public or governmental body other than the FCC.

(ii) Except as shown on Schedule 3, neither the Borrower nor any of its Subsidiaries is a party to or has knowledge of any investigation, notice of apparent liability, violation, forfeiture or other order or complaint issued by or before any court or regulatory body, including the FCC, or of any other proceedings (other than proceedings relating to the radio or television industries generally) which could in any manner materially threaten or adversely affect the validity or continued effectiveness of the Licenses of any such Person. Neither the Borrower nor any of its Subsidiaries has any reason to believe that any material Licenses listed and described in Schedule 3 will not be renewed in the ordinary course. Each of the Borrower and its Subsidiaries, as applicable, (a) has duly filed in a timely manner all material filings, reports, applications, documents, instruments and information required to be filed by it under the Communication Act or pursuant to FCC Regulations or requests of any regulatory body having jurisdiction over

any of its Licenses, (b) has submitted to the FCC on a timely basis all required equal employment opportunity reports, and (c) is in compliance in all material respects with the Communications Act, including all FCC Regulations relating to the broadcast of television signals, all FCC Regulations concerning the limits on the duration of advertising in children's programming and the record keeping obligations relating to such advertising, the Children's Television Act and all FCC Regulations promulgated thereunder and all equal employment opportunity-related FCC Regulations. The Borrower and its Subsidiaries maintain appropriate public files at the Stations, the Porta-Phone Paging Business and the Satellite Broadcasting Business in a manner that complies in all material respects with all FCC Regulations.

(iii) The Ownership Reports filed by the Borrower and its Subsidiaries with the FCC are true, correct and complete in all material respects and there have been no changes in the ownership of the Borrower or any Subsidiary of the Borrower since the filing of such Ownership Reports other than as described in information filed with the FCC and made available for examination by the Administrative Agent.

(g) Compliance with Law. The Borrower and its Subsidiaries are in compliance with all Applicable Law, except where the failure to be in compliance would not individually or in the aggregate have a Materially Adverse Effect.

(h) Title to Assets. The Borrower and its Subsidiaries have good, legal and marketable title to, or a valid leasehold interest in, all of their respective material assets. None of the properties or assets of the Borrower or any of its Subsidiaries is subject to any Liens, except for Permitted Liens. Except for financing statements evidencing Permitted Liens, no financing statement under the Uniform Commercial Code as in effect in any jurisdiction and no other filing which names the Borrower or any of its Subsidiaries as debtor or which covers or purports to cover any of the assets of the Borrower or any of its Subsidiaries is currently effective and on file in any state or other jurisdiction, and neither the Borrower nor any of its Subsidiaries has signed any such financing statement or filing or any security agreement authorizing any secured party thereunder to file any such financing statement or filing.

(i) Litigation. Except as set forth on Schedule 5 hereto, there is no action, suit, proceeding or investigation pending against, or, to the knowledge of the Borrower, threatened against or in any other manner relating adversely to, the Borrower or any of its Subsidiaries or any of their respective properties, including, without limitation, the Licenses, in any court or before any arbitrator of any kind or before or by any governmental body which could reasonably be expected to have a Materially Adverse Effect. No action, suit, proceeding or investigation (i) calls into question the validity of this Agreement or any other Loan Document, or (ii) individually or collectively involves the possibility of any judgment or liability not fully covered by insurance which, if determined adversely to the Borrower or any of its Subsidiaries, would have a Materially Adverse Effect.

(j) Taxes. All federal, state and other tax returns of the Borrower, each of its Subsidiaries required by law to be filed have been duly filed and all federal, state and other taxes,

including, without limitation, withholding taxes, assessments and other governmental charges or levies required to be paid by the Borrower or by any of its Subsidiaries or imposed upon the Borrower or any of its Subsidiaries or any of their respective properties, income, profits or assets, which are due and payable, have been paid, except any such taxes (i) (A) the payment of which the Borrower or any of its Subsidiaries is diligently contesting in good faith by appropriate proceedings, (B) for which adequate reserves have been provided on the books of the Borrower or the Subsidiary of the Borrower involved, and (C) as to which no Lien other than a Permitted Lien has attached and no foreclosure, distraint, sale or similar proceedings have been commenced, or (ii) which may result from audits not yet conducted. The charges, accruals and reserves on the books of the Borrower and each of its Subsidiaries in respect of taxes are, in the reasonable judgment of the Borrower, adequate.

(k) Financial Statements; Projections.

(i) The Borrower has furnished or caused to be furnished to the Administrative Agent and the Lenders a Form 10-K for the Borrower and its Subsidiaries on a consolidated basis for the fiscal year ended December 31, 1998, audited financial statements for the fiscal year ended December 31, 1998 and unaudited for the quarter ended June 30, 1999 and the month ended July 31, 1999, which, together with other financial statements furnished to the Lenders subsequent to the Agreement Date have been prepared in accordance with GAAP and present fairly in all material respects the financial position of the Borrower and its Subsidiaries on a consolidated and consolidating basis, as the case may be, on and as at such dates and the results of operations for the periods then ended (subject, in the case of unaudited financial statements, to normal year-end and audit adjustments). None of the Borrower or any of its Subsidiaries has any material liabilities, contingent or otherwise, other than as disclosed in the financial statements most recently delivered on the Agreement Date or pursuant to Section 6.1, 6.2 or 6.3 hereof, and there are no material unrealized losses of the Borrower and its Subsidiaries taken as a whole and no material anticipated losses of the Borrower and its Subsidiaries taken as a whole other than those which have been previously disclosed in writing to the Administrative Agent and the Lenders and identified as such.

(ii) The Borrower has delivered to the Administrative Agent and the Lenders projections for fiscal years 1999 through 2005. Such projections assume the consummation of the transactions contemplated in the Texas Acquisition Agreement, were prepared by the Borrower in good faith on the basis of assumptions the Borrower believes were reasonable in light of the conditions existing at the time of preparation thereof and remain reasonable as of the date hereof, and as of the date hereof no facts which are known to the Borrower which the Borrower believes would cause a material adverse change in such projections.

(l) No Material Adverse Change. There has occurred no event since December 31, 1998 which has or which could reasonably be expected to have a Materially Adverse Effect.

(m) ERISA. The Borrower and each of its Subsidiaries and each of their respective Plans are in material compliance with ERISA and the Code, and neither the Borrower nor any of its ERISA Affiliates, including its Subsidiaries, has incurred any material accumulated funding deficiency with respect to any such Plan within the meaning of ERISA or the Code. Neither the Borrower nor any of its Subsidiaries has made any promises of retirement or other benefits to employees, except as set forth in the Plans, in written agreements with such employees, or in the Borrower's employee handbook and memoranda to employees. Neither the Borrower nor any of its ERISA Affiliates, including its Subsidiaries, has incurred any material liability to PBGC in connection with any such Plan. The assets of each such Plan which is subject to Title IV of ERISA are sufficient to provide the benefits under such Plan, the payment of which PBGC would guarantee if such Plan were terminated, and such assets are also sufficient to provide all other "benefit liabilities" (within the meaning of Section 4041 of ERISA) due under the Plan upon termination. No Reportable Event has occurred and is continuing with respect to any such Plan. No such Plan or trust created thereunder, or party in interest (as defined in Section 3(14) of ERISA), or any fiduciary (as defined in Section 3(21) of ERISA), has engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) which would subject such Plan or any other Plan of the Borrower or any of its Subsidiaries, any trust created thereunder, or any such party in interest or fiduciary, or any party dealing with any such Plan or any such trust, to the tax or penalty on "prohibited transactions" imposed by Section 502 of ERISA or Section 4975 of the Code. Neither the Borrower nor any of its ERISA Affiliates, including its Subsidiaries, is or has been obligated to make any payment to a Multiemployer Plan.

(n) Compliance with Regulations T, U and X. Neither the Borrower nor any of its Subsidiaries is engaged principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying, and neither the Borrower nor any of its Subsidiaries owns or presently intends to acquire, any "margin security" or "margin stock" (the "margin stock") as defined in Regulations T, U, and X (12 C.F.R. Parts 220, 221 and 224) of the Board of Governors of the Federal Reserve System (the "Fed Regulations"). None of the proceeds of the Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any margin stock or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of said Regulations. The Borrower has not taken, caused or authorized to be taken, and will not take any action which might cause this Agreement or the Notes to violate any Fed Regulation or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934, in each case as now in effect or as the same may hereafter be in effect. If so requested by the Administrative Agent, the Borrower will furnish the Administrative Agent with (i) a statement or statements in conformity with the requirements of Federal Reserve Forms G-3 and/or U-1 referred to in Regulation U of said Board of Governors and (ii) other documents evidencing its compliance with the margin regulations, reasonably requested by the Administrative Agent. Neither the making of the Loans nor the use of proceeds thereof will violate, or be inconsistent with, the provisions of any Fed Regulation.

(o) Investment Company Act. Neither the Borrower nor any of its Subsidiaries is required to register under the provisions of the Investment Company Act of 1940, as amended, and neither the entering into or performance by the Borrower and its Subsidiaries of this Agreement and the Loan Documents nor the issuance of the Notes violates any provision of such Act or requires any consent, approval or authorization of, or registration with, the Securities and Exchange Commission or any other governmental or public body or authority pursuant to any provisions of such Act.

(p) Governmental Regulation. Neither the Borrower nor any of its Subsidiaries is required to obtain any consent, approval, authorization, permit or license which has not already been obtained from, or effect any filing or registration which has not already been effected with, any federal, state or local regulatory authority in connection with the execution and delivery of this Agreement or any other Loan Document. Neither the Borrower nor any of its Subsidiaries is required to obtain any consent, approval, authorization, permit or license which has not already been obtained from, or effect any filing or registration which has not already been effected with, any federal, state or local regulatory authority in connection with the performance, in accordance with their respective terms, of this Agreement or any other Loan Document, other than filing of appropriate Uniform Commercial Code financing statements and mortgages.

(q) Absence of Default, Etc. The Borrower and its Subsidiaries are in material compliance in all respects with all of the provisions of their respective partnership agreements, operating agreements, certificates or articles of incorporation and by-laws, as the case may be, and no event has occurred or failed to occur (including, without limitation, any matter which could create a Default hereunder by cross-default) which has not been remedied or waived, the occurrence or non-occurrence of which constitutes, (i) a Default or (ii) a material default by the Borrower or any of its Subsidiaries under any indenture, agreement or other instrument relating to Indebtedness of the Borrower or any of its Subsidiaries in the amount of \$1,000,000.00 or more in the aggregate, any material license, or any judgment, decree or order to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries or any of their respective properties may be bound or affected.

(r) Accuracy and Completeness of Information. All information, reports, prospectuses and other papers and data relating to the Borrower or any of its Subsidiaries and furnished by or on behalf of the Borrower or any of its Subsidiaries to the Administrative Agent or the Lenders, taken as a whole, were, at the time furnished, true, complete and correct in all material respects to the extent necessary to give the Administrative Agent and the Lenders true and accurate knowledge of the subject matter. Any projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by the Borrower to be reasonable and attainable at the time made, it being recognized by the Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results.

(s) Agreements with Affiliates. Except for agreements or arrangements with Affiliates wherein the Borrower or one or more of its Subsidiaries provides services to such Affiliates for fair consideration or which are set forth on Schedule 6 attached hereto, neither the Borrower nor any of its Subsidiaries has (i) any written agreements or binding arrangements of any kind with any Affiliate or (ii) any management or consulting agreements of any kind with any Affiliate.

(t) Payment of Wages. The Borrower and each of its Subsidiaries are in compliance with the Fair Labor Standards Act, as amended, in all material respects, and to the knowledge of the Borrower and each of its Subsidiaries, such Persons have paid all minimum and overtime wages required by law to be paid to their respective employees.

(u) Priority. The Security Interest is a valid and perfected first priority security interest in the Collateral in favor of the Administrative Agent, for the benefit of itself and the Lenders, securing, in accordance with the terms of the Security Documents, the Obligations, and the Collateral is subject to no Liens other than Permitted Liens. The Liens created by the Security Documents are enforceable as security for the Obligations in accordance with their terms with respect to the Collateral subject, as to enforcement of remedies, to the following qualifications: (i) an order of specific performance and an injunction are discretionary remedies and, in particular, may not be available where damages are considered an adequate remedy at law, and (ii) enforcement may be limited by bankruptcy, insolvency, liquidation, reorganization, reconstruction and other similar laws affecting enforcement of creditors' rights generally (insofar as any such law relates to the bankruptcy, insolvency or similar event of the Borrower or any of its Subsidiaries, as the case may be).

(v) Indebtedness. Except as described on Schedule 7 attached hereto none of the Borrower nor any of its Subsidiaries has outstanding, as of the Agreement Date, and after giving effect to the initial Advances hereunder on the Agreement Date, any Indebtedness.

(w) Solvency. As of the Agreement Date and after giving effect to the transactions contemplated by the Loan Documents (i) the property of the Borrower, at a fair valuation, will exceed its debt; (ii) the capital of the Parent and the Borrower will not be unreasonably small to conduct its business; (iii) the Borrower will not have incurred debts, or have intended to incur debts, beyond its ability to pay such debts as they mature; and (iv) the present fair salable value of the assets of the Borrower will be greater than the amount that will be required to pay its probable liabilities (including debts) as they become absolute and matured. For purposes of this Section 4.1(w), "debt" means any liability on a claim, and "claim" means (i) the right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, undisputed, legal, equitable, secured or unsecured, or (ii) the right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, undisputed, secured or unsecured.

(x) Patents, Trademarks, Franchises, etc. The Borrower and each of its Subsidiaries owns, possesses, or has the right to use all necessary patents, trademarks, trademark

rights, trade names, trade name rights, service marks, copyrights and franchises, and rights with respect thereof, necessary to conduct its respective business as now conducted, without known conflict with any patent, trademark, trade name, service mark, franchise, or copyright of any other Person, and in each case, subject to no mortgage, pledge, lien, lease, encumbrance, charge, security interest, title retention agreement, or option. All such patents, trademarks, trademark rights, trade names, trade name rights, service marks, copyrights, and franchises are listed as of the Agreement Date on Schedule 8 attached hereto and are in full force and effect, the holder thereof is in full compliance in all material respects with all of the provisions thereof, and no such asset or agreement is subject to any pending or, to the best of the Borrower's knowledge, threatened attack or revocation.

(y) Collective Bargaining. None of the employees of the Borrower or any of its Subsidiaries is a party to any collective bargaining agreement with the Parent, the Borrower or any of its Subsidiaries except as set forth on Schedule 9 attached hereto, and, to the best knowledge of the Borrower and its officers, there are no material grievances, disputes, or controversies with any union or any other organization of the employees of the Borrower or any of its Subsidiaries or threats of strikes, work stoppages, or any asserted pending demands for collective bargaining by any union or other organization except as set forth on Schedule 9 attached hereto.

(z) Year 2000 Compliance. The Borrower has (i) initiated a review and assessment of all areas within the Borrower's and each of its Subsidiaries' respective business and operations (including those affected by suppliers, vendors and customers) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower or any of its Subsidiaries (or suppliers, vendors and customers) may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date on or after December 31, 1999), (ii) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and (iii) to date, implemented that plan in accordance with that timetable. Based on the foregoing, the Borrower believes that all computer applications (including those of its suppliers, vendors and customers) that are material to the Borrower's or any of its Subsidiaries' business and operations are reasonably expected on a timely basis to be able to perform properly date-sensitive functions for all dates before, on and after January 1, 2000 (that is, be "Year 2000 Compliant"), except to the extent that a failure to do so could not reasonably be expected to have a Materially Adverse Effect.

(aa) Environmental Protection.

(i) Except as set forth in Schedule 10 attached hereto, neither the Borrower nor any of its Subsidiaries nor any of their respective Real Property or operations are subject to any outstanding written order, consent decree or settlement agreement with any Person relating to (A) any Environmental Law, (B) any Environmental Claim or (C) any Hazardous Materials Activity;

(ii) Neither the Borrower nor any of its Subsidiaries has received any letter or request for information under Section 104 of the Comprehensive Environmental

Response, Compensation and Liability Act (42 U.S.C. ss. 9604) or any comparable state law.

(iii) There are no and, to the Borrower's knowledge, have been no conditions, occurrences, or Hazardous Materials Activities which could reasonably be expected to form the basis of an Environmental Claim against the Borrower or any of its Subsidiaries that, individually or in the aggregate, could reasonably be expected to have a Materially Adverse Effect;

(iv) Neither the Borrower nor any of its Subsidiaries, nor, to the Borrower's knowledge, any predecessor of the Borrower or any of its Subsidiaries has filed any notice under any Environmental Law indicating past or present treatment of Hazardous Materials on any Real Property, and neither the Borrower nor any of its Subsidiaries' operations involves the generation, transportation, treatment, storage or disposal of hazardous waste (other than Hazardous Materials used in the ordinary course of business, the use of which is immaterial and not reasonably likely to materially adversely affect the Real Property or have a Materially Adverse Effect), as defined under 40 C.F.R. Parts 260-270 or any state equivalent; and

(v) Compliance with all current requirements pursuant to or under Environmental Laws will not, individually or in the aggregate, have a reasonable possibility of giving rise to a Materially Adverse Effect.

Notwithstanding anything in this Section 4.1(aa) to the contrary, no event or condition has occurred or is occurring with respect to the Borrower or any of its Subsidiaries relating to any Environmental Law, any release of Hazardous Materials, or any Hazardous Materials Activity which individually or in the aggregate has had or could reasonably be expected to have a Materially Adverse Effect.

Section 4.2 Survival of Representations and Warranties, etc. All representations and warranties made under this Agreement and any other Loan Document shall be deemed to be made, and shall be true and correct in all material respects, at and as of the Agreement Date and on the date of the making, Continuation or Conversion of each Advance or issuance of Letter of Credit, except to the extent relating specifically to the Agreement Date. All representations and warranties made under this Agreement and the other Loan Documents shall survive, and not be waived by, the execution hereof by the Lenders and the Administrative Agent, any investigation or inquiry by any Lender or the Administrative Agent, or the making, Continuation or Conversion of any Advance under this Agreement.

ARTICLE 5

General Covenants

So long as any of the Obligations is outstanding and unpaid or the Lenders have an obligation to fund Advances hereunder (whether or not the conditions to borrowing have been or

can be fulfilled), and unless the Required Lenders, or such greater number of Lenders as may be expressly provided herein, shall otherwise consent in writing:

Section 5.1 Preservation of Existence and Similar Matters. Except as permitted under Section 7.4 hereof, the Borrower will, and will cause each of its Subsidiaries to:

(a) preserve and maintain its existence, and its material rights, franchises, Licenses and privileges; and

(b) qualify and remain qualified and authorized to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification or authorization, except for such failure to so qualify and be so authorized as could not reasonably be expected to have a Materially Adverse Effect.

Section 5.2 Business; Compliance with Applicable Law. The Borrower will, and will cause each of its Subsidiaries to, (a) engage in the business of owning and operating Stations, Newspapers, the Porta-Phone Paging Business, the Satellite Broadcasting Business and other media-related businesses, and (b) comply in all material respects with the requirements of all Applicable Law.

Section 5.3 Maintenance of Properties. The Borrower will, and will cause each of its Subsidiaries to, maintain or cause to be maintained in the ordinary course of business in good repair, working order and condition (reasonable wear and tear excepted) all properties used in their respective businesses (whether owned or held under lease), other than obsolete equipment or unused assets and from time to time make or cause to be made all needed and appropriate repairs, renewals, replacements, additions, betterments and improvements thereto.

Section 5.4 Accounting Methods and Financial Records. The Borrower will, and will cause each of its Subsidiaries on a consolidated and consolidating basis to, maintain a system of accounting established and administered in accordance with GAAP, keep adequate records and books of account in which complete entries will be made in accordance with GAAP and reflecting all transactions required to be reflected by GAAP and keep accurate and complete records of their respective properties and assets. The Borrower and its Subsidiaries will maintain a fiscal year ending on December 31st.

Section 5.5 Insurance. The Borrower will, and will cause each of its Subsidiaries to:

(a) maintain insurance, including, without limitation, business interruption coverage and public liability coverage insurance from responsible companies in such amounts and against such risks to the Borrower and each of its Subsidiaries as is prudent for similarly situated companies engaged in the television or satellite broadcast, portable telephone paging, newspaper or other media related industry, as applicable, and as is reasonably acceptable to the Administrative Agent;

(b) keep their respective assets insured by insurers on terms and in a manner reasonably acceptable to the Administrative Agent against loss or damage by fire, theft, burglary, loss in transit, explosions and hazards insured against by extended coverage, in amounts which are prudent for companies in similarly situated industries and reasonably satisfactory to the Administrative Agent, all premiums thereon to be paid by the Borrower and its Subsidiaries; and

(c) require that each insurance policy provide for at least thirty (30) days' prior written notice to the Administrative Agent of any termination of or proposed cancellation or nonrenewal of such policy, and name the Administrative Agent as additional named lender loss payee and, as appropriate, additional insured, to the extent of the Obligations.

In addition to the foregoing, in the event that any insurer distributes insurance proceeds, a condemnation award, or any other disbursement in connection with any of the foregoing insurance policies, the Administrative Agent is authorized to collect such distribution and, if received by the Borrower or any of its Subsidiaries, such distribution shall be paid over to the Administrative Agent; provided that all such proceeds shall be paid over to the Borrower unless an Event of Default has occurred and is continuing. Any such distribution shall be applied to prepay the Loans as set forth in Section 2.7(b)(iii) hereof.

Section 5.6 Payment of Taxes and Claims. The Borrower will, and will cause each of its Subsidiaries to, pay and discharge all taxes, including, without limitation, withholding taxes, assessments and governmental charges or levies required to be paid by them or imposed upon them or their income or profits or upon any properties belonging to them, prior to the date on which penalties attach thereto, and all lawful claims for labor, materials and supplies which, if unpaid, might become a Lien or charge upon any of their properties; provided, however, except that no such tax, assessment, charge, levy or claim need be paid which is being diligently contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on the appropriate books, but only so long as such tax, assessment, charge, levy or claim does not become a Lien or charge other than a Permitted Lien and no foreclosure, distraint, sale or similar proceedings shall have been commenced. The Borrower will, and will cause each of its Subsidiaries to, timely file all information returns required by federal, state or local tax authorities.

Section 5.7 Compliance with ERISA.

(a) The Borrower will, and will cause its Subsidiaries to, make all contributions to any Employee Pension Plan when such contributions are due and not incur any "accumulated funding deficiency" within the meaning of Section 412(a) of the Code, whether or not waived, and will otherwise comply with the requirements of the Code and ERISA with respect to the operation of all Plans, except to the extent that the failure to so comply could not have a Materially Adverse Effect.

(b) The Borrower will furnish to Administrative Agent (i) within thirty (30) days after any officer of the Borrower obtains knowledge that a "prohibited transaction" (within the meaning of Section 406 of ERISA or Section 4975 of the Code) has occurred with respect to

any material Plan of the Borrower or its ERISA Affiliates, including its Subsidiaries, that any Reportable Event has occurred with respect to any Employee Pension Plan or that PBGC has instituted or will institute proceedings under Title IV of ERISA to terminate any Employee Pension Plan or to appoint a trustee to administer any Employee Pension Plan, a statement setting forth the details as to such prohibited transaction, Reportable Event or termination or appointment proceedings and the action which it (or any other Employee Pension Plan sponsor if other than the Borrower) proposes to take with respect thereto, together with a copy of the notice of such Reportable Event given to PBGC if a copy of such notice is available to the Borrower, any of its Subsidiaries or any of its ERISA Affiliates, (ii) promptly after receipt thereof, a copy of any notice the Parent, the Borrower, any of its Subsidiaries or any of its ERISA Affiliates or the sponsor of any Plan receives from PBGC, or the Internal Revenue Service or the Department of Labor which sets forth or proposes any action or determination with respect to such Plan, (iii) promptly after the filing thereof, any annual report required to be filed pursuant to ERISA in connection with each Plan maintained by the Borrower or any of its ERISA Affiliates, including the Subsidiaries, and (iv) promptly upon the Administrative Agent's request therefor, such additional information concerning any such Plan as may be reasonably requested by the Administrative Agent.

(c) The Borrower will promptly notify the Administrative Agent of any excise taxes which have been assessed or which the Borrower, any of its Subsidiaries or any of its ERISA Affiliates has reason to believe may be assessed against the Borrower, any of its Subsidiaries or any of its ERISA Affiliates by the Internal Revenue Service or the Department of Labor with respect to any Plan of the Borrower or its ERISA Affiliates, including its Subsidiaries.

(d) Within the time required for notice to the PBGC under Section 302(f)(4)(A) of ERISA, the Borrower will notify the Administrative Agent of any lien arising under Section 302(f) of ERISA in favor of any Plan of the Borrower or its ERISA Affiliates, including its Subsidiaries.

(e) The Borrower will not, and will not permit any of its Subsidiaries or any of its ERISA Affiliates to take any of the following actions or permit any of the following events to occur if such action or event together with all other such actions or events would subject the Parent, the Borrower, any of its Subsidiaries, or any of its ERISA Affiliates to any tax, penalty, or other liabilities which could have a Materially Adverse Effect:

(i) engage in any transaction in connection with which the Borrower, any of its Subsidiaries or any ERISA Affiliate could be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code;

(ii) terminate any Employee Pension Plan in a manner, or take any other action, which could result in any liability of the Borrower, any of its Subsidiaries or any ERISA Affiliate to the PBGC;

(iii) fail to make full payment when due of all amounts which, under the provisions of any Plan, the Borrower, any of its Subsidiaries or any ERISA Affiliate is required to pay as contributions thereto, or permit to exist any accumulated funding deficiency within the meaning of Section 412(a) of the Code, whether or not waived, with respect to any Employee Pension Plan; or

(iv) permit the present value of all benefit liabilities under all Employee Pension Plans which are subject to Title IV of ERISA to exceed the present value of the assets of such Plans allocable to such benefit liabilities (within the meaning of Section 4041 of ERISA), except as may be permitted under actuarial funding standards adopted in accordance with Section 412 of the Code.

Section 5.8 Visits and Inspections. The Borrower will, and will cause each of its Subsidiaries to, permit representatives of the Administrative Agent and any of the Lenders, prior to the occurrence of an Event of Default upon reasonable notice and at any time upon the occurrence and during the continuance of an Event of Default, to (i) visit and inspect the properties of the Borrower or any of its Subsidiaries during business hours, (ii) inspect and make extracts from and copies of their respective books and records, and (iii) discuss with their respective principal officers their respective businesses, assets, liabilities, financial positions, results of operations and business prospects. The Borrower and each of its Subsidiaries will also permit representatives of the Administrative Agent and any of the Lenders to discuss with their respective accountants the Borrower's and its Subsidiaries' businesses, assets, liabilities, financial positions, results of operations and business prospects.

Section 5.9 Payment of Indebtedness; Loans. Subject to any provisions herein or in any other Loan Document, the Borrower will, and will cause each of its Subsidiaries to, pay any and all of their respective Indebtedness when and as it becomes due, other than amounts diligently disputed in good faith and for which adequate reserves have been set aside in accordance with GAAP.

Section 5.10 Use of Proceeds. The Borrower will use the aggregate proceeds of all Advances under the Loans directly or indirectly: (a) to refinance Indebtedness under the Prior Loan Agreement; (b) to finance the Texas Acquisition; and (c) to the extent permitted hereunder, for working capital needs, Capital Expenditures, Acquisitions, Investments, Restricted Payments, Restricted Purchases and other general corporate purposes of the Borrower and its Subsidiaries which do not otherwise conflict with this Section 5.10 (including, without limitation, the payment of the fees and expenses incurred in connection with the execution and delivery of this Agreement). No proceeds of Advances hereunder shall be used for the purchase or carrying or the extension of credit for the purpose of purchasing or carrying, any margin stock within the meaning of the Fed Regulations.

Section 5.11 Indemnity. The Borrower, for itself and on behalf of each of its Subsidiaries, agrees to indemnify and hold harmless each Lender, the Administrative Agent, and each of their respective affiliates, employees, representatives, shareholders, officers and directors (any of the foregoing shall be an "Indemnitee") from and against any and all claims, obligations,

judgments, suits, liabilities, losses, damages, penalties, actions, reasonable attorneys' fees and expenses and demands by any party, including, without limitation, the costs of investigating and defending such claims, whether or not the Borrower, any Subsidiary of the Borrower or the Person seeking indemnification is the prevailing party: (a) resulting from any breach or alleged breach by the Borrower or any Subsidiary of the Borrower of any representation or warranty made under any Loan Document; or (b) otherwise arising out of (i) the Commitments, the Loans or otherwise under this Agreement, any Loan Document or any transaction contemplated hereby or thereby, including, without limitation, the use of the proceeds of Loans hereunder in any fashion by the Borrower or the performance of their respective obligations under the Loan Documents by the Borrower or any of its Subsidiaries, (ii) allegations of any participation by the Lenders and the Administrative Agent, or any of them, in the affairs of the Borrower or any of its Subsidiaries, or allegations that any of them has any joint liability with the Borrower or any of its Subsidiaries for any reason, (iii) any claims against the Lenders and the Administrative Agent, or any of them, by any shareholder or other investor in or lender to the Borrower or any of its Subsidiaries, by any brokers or finders or investment advisers or investment bankers retained by the Borrower or by any other third party, arising out of the Commitments or otherwise under this Agreement; or (c) in connection with taxes (not including federal or state income or franchise taxes or other taxes based solely upon the revenues or income of such Persons), fees and other charges payable in connection with the Loans, or the execution, delivery and enforcement of this Agreement, the Security Documents, the other Loan Documents and any amendments thereto or waivers of any of the provisions thereof; unless the Person seeking indemnification hereunder is determined in such case to have acted with gross negligence or willful misconduct, in any case, by a final, non-appealable judicial order. The obligations of the Borrower under this Section 5.11 are in addition to, and shall not otherwise limit, any liabilities which the Borrower might otherwise have in connection with any warranties or similar obligations of the Borrower in any other Loan Document.

Section 5.12 Interest Rate Hedging. Within sixty (60) days immediately following the Agreement Date, and at all times thereafter, the Borrower shall at all times maintain one (1) or more Interest Rate Hedge Agreements, or otherwise fix the interest rate, with respect to the Borrower's interest obligations on an aggregate principal amount of not less than fifty percent (50%) of Total Debt outstanding from time to time as determined in a manner satisfactory to the Administrative Agent. Such Interest Rate Hedge Agreements shall provide interest rate protection in conformity with International Swap Dealers Association standards and for a period averaging at least eighteen (18) months from the date of such Interest Rate Hedge Agreements across all such Interest Rate Hedge Agreements or, if earlier, until the Maturity Date on terms acceptable to the Administrative Agent, such terms to include consideration of the creditworthiness of the other party to the proposed Interest Rate Hedge Agreement. All Obligations of the Borrower to the Administrative Agent or any of the Lenders or any of their Affiliates pursuant to any Interest Rate Hedge Agreement permitted hereunder and all Liens granted to secure such Obligations shall rank pari passu with all other Obligations and Liens securing such other Obligations; and any Interest Rate Hedge Agreement between the Borrower and any other Person shall be unsecured.

Section 5.13 Covenants Regarding Formation of Subsidiaries and Acquisitions; Partnership, Subsidiaries. At the time of (i) any Acquisition permitted hereunder, (ii) the purchase by the Borrower or any of its Subsidiaries of any interests in any Subsidiary of the Borrower, or (iii) the formation of any new Subsidiary of the Borrower or any of its Subsidiaries which is permitted under this Agreement, the Borrower will, and will cause its Subsidiaries, as appropriate, to: (a) provide to the Administrative Agent an executed Subsidiary Security Agreement for any new Subsidiary, together with appropriate Uniform Commercial Code financing statements, as well as an executed Subsidiary Guaranty for such new Subsidiary, which shall constitute both Security Documents and Loan Documents for purposes of this Agreement, as well as a loan certificate for such new Subsidiary, substantially in the form of Exhibit K-2 attached hereto, together with appropriate attachments; (b) pledge to the Administrative Agent all of the Ownership Interests of such Subsidiary or Person which is acquired or formed, beneficially owned by the Borrower or any of its Subsidiaries, as the case may be, as additional Collateral for the Obligations to be held by the Administrative Agent in accordance with the terms of the Borrower Pledge Agreement, or a new Subsidiary Pledge Agreement and execute and deliver to the Administrative Agent all such documentation for such pledge as, in the reasonable opinion of the Administrative Agent, is appropriate; (c) with respect to any Real Property acquired or owned by any new Subsidiary, provide to the Administrative Agent a Mortgage, title insurance policy, Phase I environmental audit or such other documentation reasonably satisfactory to the Administrative Agent, which in its reasonable opinion is appropriate with respect thereto; and (d) provide revised financial projections for the remainder of the fiscal year and for each subsequent year until the Maturity Date which reflect such Acquisition or formation, certified by the chief financial officer of the Borrower, together with a statement by such Person that no Default or Event of Default exists or would be caused by such Acquisition or formation, and all other documentation, including one or more opinions of counsel, which are satisfactory to the Administrative Agent and which in its opinion is appropriate with respect to such Acquisition or formation. Any document, agreement or instrument executed or issued pursuant to this Section 5.13 shall be a "Loan Document" for purposes of this Agreement.

Section 5.14 Payment of Wages. The Borrower will, and will cause each of its Subsidiaries to, at all times comply in all material respects, with the material requirements of the Fair Labor Standards Act, as amended, including, without limitation, the provisions of such Act relating to the payment of minimum and overtime wages as the same may become due from time to time.

Section 5.15 Further Assurances. The Borrower will promptly cure, or cause to be cured, defects in the creation and issuance of any of the Notes and the execution and delivery of the Loan Documents (including this Agreement), resulting from any acts or failure to act by the Borrower or any of the its Subsidiaries or any employee or officer thereof. The Borrower, at its expense, will promptly execute and deliver to the Administrative Agent and the Lenders, or cause to be executed and delivered to the Administrative Agent and the Lenders, all such other and further documents, agreements and instruments in compliance with or accomplishment of the covenants and agreements of the Borrower and its Subsidiaries in the Loan Documents, including, without limitation, this Agreement, or to correct any omissions in the Loan Documents, or more fully to state the obligations set out herein or in any of the Loan

Documents, or to obtain any consents, all as may be necessary or appropriate in connection therewith and as may be reasonably requested.

Section 5.16 License Subs. At the time of any Acquisition permitted hereunder, the Borrower shall cause each of the FCC Licenses being acquired by the Borrower or any of its Subsidiaries to be transferred to one or more License Subs, each of which License Subs shall have as its sole asset or assets the FCC Licenses of the Borrower or any of its Subsidiaries and a management agreement with the Borrower and such of its Subsidiaries subject to such FCC License or FCC Licenses, such that from and after such applicable date neither the Borrower nor its Subsidiaries (other than License Subs) shall hold any FCC Licenses other than through one or more duly created and existing License Subs. The Borrower shall not permit the License Subs to have any business activities, operations, assets, Indebtedness, Guaranties or Liens (other than holding FCC Licenses and owning the Ownership Interests of other License Subs, and other than pursuant to a Subsidiary Guaranty and Subsidiary Security Agreement issued in connection herewith or any agreement referred to in the preceding sentence). Promptly after the transfer of the FCC Licenses to the License Subs, the Borrower shall provide to the Administrative Agent copies of any required consents to such transfer from the FCC and any other governmental authority, together with a certificate of an Authorized Signatory stating that all Necessary Authorizations relating to such transfer have been obtained or made, are in full force and effect and are not subject to any pending or threatened reversal or cancellation.

Section 5.17 Year 2000 Compliance. The Borrower will, and will cause each of its Subsidiaries to, promptly notify the Administrative Agent in the event that the Borrower or any of its Subsidiaries discovers or determines that any computer application (including those of its suppliers, vendors, and customers) that is material to the Borrower's or any of its Subsidiaries' businesses and operations will not be Year 2000 Compliant, except to the extent that such failure could not reasonably be expected to have a Materially Adverse Effect.

Section 5.18 Maintenance of Network Affiliations; Operating Agreements. The Borrower will, and will cause each of its Subsidiaries to, maintain a network affiliation with ABC, CBS, NBC, FOX or other network reasonably satisfactory to the Required Lenders at all times for each Station. The Borrower will, and will cause each of its Subsidiaries to maintain, and not breach or violate, any and all Operating Agreements and other material contracts and rights necessary to operate the Stations, the Newspapers, the Porta-Phone Paging Business, the Satellite Broadcasting Business and its other media-related businesses in all material respects.

Section 5.19 Ownership Reports. The Borrower will file Ownership Reports for any Station acquired after the Agreement Date (reflecting such Acquisition by the Borrower) with the FCC within thirty (30) days after the date of the consummation of such Acquisition.

Section 5.20 Environmental Compliance and Indemnity.

(a) The Borrower will, and will cause each of its Subsidiaries to, comply in all material respects with all Environmental Laws, including, without limitation, all Environmental

Laws in jurisdictions in which the Borrower or any of its Subsidiaries owns or operates a facility or site, arranges for disposal or treatment of Hazardous Materials, solid waste or other wastes, accepts for transport any Hazardous Materials, solid wastes or other wastes or holds any interest in Real Property or otherwise. Neither the Borrower nor any of its Subsidiaries shall cause or allow the release of Hazardous Materials, solid waste or other wastes on, under or to any Real Property in which the Borrower or such Subsidiary holds any interest or performs any of its operations, in material violation of any Environmental Law. The Borrower shall notify the Lenders promptly after its receipt of notice thereof, of any Environmental Claim which the Borrower receives involving any potential or actual material liability of the Borrower or any of its Subsidiaries arising in connection with any noncompliance with or violation of the requirements of any Environmental Law or a material Release or threatened Release of any Hazardous Materials, solid waste or other waste into the environment. The Borrower shall promptly notify the Lenders (i) of any material release of Hazardous Material on, under or from the Real Property in which the Borrower or any of its Subsidiaries holds or has held an interest, upon the Borrower's learning thereof by receipt of notice that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of such Release or that the Borrower or such Subsidiary has been identified as potentially responsible for, or is subject to investigation by any governmental authority relating to, such Release, and (ii) of the commencement or threat or any judicial or administrative proceeding alleging a violation of any Environmental Laws.

(b) If the Administrative Agent at any time has a reasonable basis to believe that there may be a violation of any Environmental Law by, or any liability arising thereunder of, the Borrower or any of its Subsidiaries or related to any real property owned, leased or operated by the Borrower or any of its Subsidiaries or real property adjacent to such Real Property, which violation or liability could reasonably be expected to have a Materially Adverse Effect, then the Borrower shall, upon request from the Administrative Agent, provide the Administrative Agent with such reports, certificates, engineering studies or other written material or data as the Administrative Agent may require so as to satisfy the Administrative Agent that the Borrower or such Subsidiary is in material compliance with all applicable Environmental Laws.

(c) The Borrower shall defend, indemnify and hold the Administrative Agent and the Lenders and their respective officers, directors, shareholders, employees, agents, affiliates, successors and assigns harmless from and against all costs, expenses, claims, demands, damages, penalties and liabilities of every kind or nature whatsoever incurred by them (including, without limitation, reasonable attorney fees and expenses) arising out of, resulting from or relating to (i) the noncompliance of the Borrower, any of its Subsidiaries or any property owned or leased by the Borrower or any of its Subsidiaries with any Environmental Law, or (ii) any investigatory or remedial action involving the Borrower, any of its Subsidiaries or any property owned or leased by the Borrower or any of its Subsidiaries and required by Environmental Laws or by order of any governmental authority having jurisdiction under any Environmental Laws, or (iii) any injury to any person whatsoever or damage to any property arising out of, in connection with or in any way relating to the breach of any of the environmental warranties or covenants in this Agreement or any facts or circumstances that cause any of the environmental representations or warranties contained in this Agreement to cease to be true, or (iv) the existence, treatment, storage, Release, generation, transportation,

removal, manufacture or other handling of any Hazardous Material on or affecting any property owned or leased by the Borrower or any of its Subsidiaries, or (v) the presence of any asbestos-containing material or underground storage tanks, whether in use or closed, under or on any property owned or leased by the Borrower or any of its Subsidiaries; provided, however, that the foregoing indemnity shall not apply to any such costs, expenses, claims, demands, damages, penalties or liabilities that are determined in a final non-appealable order of a court of competent jurisdiction to have arisen solely out of the gross negligence or willful misconduct of the indemnified person.

ARTICLE 6

Information Covenants

So long as any of the Obligations is outstanding and unpaid or the Lenders have an obligation to fund Advances hereunder (whether or not the conditions to borrowing have been or can be fulfilled), and unless the Required Lenders shall otherwise consent in writing, the Borrower will furnish or cause to be furnished to the Administrative Agent (with, for the reports required under Sections 6.1, 6.2, 6.3 and 6.4 hereof, sufficient copies for each Lender):

Section 6.1 Quarterly Financial Statements and Information. Within forty-five (45) days after the last day of each of the first three (3) quarters of each fiscal year of the Borrower, the balance sheets and the related statements of operations of the Borrower on a consolidated and consolidating basis with its Subsidiaries as at the end of such quarter and as of the end of the preceding fiscal year and the related statements of cash flows of the Borrower on a consolidated basis with its Subsidiaries for such quarter and for the elapsed portion of the year ended with the last day of such quarter, each of which shall set forth in comparative form such figures as at the end of and for such quarter and appropriate prior period and shall be certified by the chief financial officer, chief accounting officer or controller of the Borrower to have been prepared in accordance with GAAP and to present fairly in all material respects the financial position of the Borrower on a consolidated and consolidating basis with its Subsidiaries as at the end of such period and the results of operations for such period, and for the elapsed portion of the year ended with the last day of such period, subject only to normal year-end and audit adjustments.

Section 6.2 Annual Financial Statements and Information. Within ninety (90) days after the end of each fiscal year of the Borrower, the audited consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year and the related audited consolidated statements of operations for such fiscal year and for the previous fiscal year, the related audited consolidated statements of cash flow and members' equity for such fiscal year and for the previous fiscal year, each of which shall be accompanied by an opinion of independent certified public accountants of recognized national standing acceptable to the Administrative Agent (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of the audit), together with a statement of such accountants that in connection with their audit, nothing came to their attention that caused them to believe that the Borrower was not in compliance with or was otherwise in Default under the

terms, covenants, provisions or conditions of Articles 7 and 8 hereof insofar as they relate to accounting or financial matters.

Section 6.3 Monthly Financial Information. Within forty-five (45) days after the end of each month for the first eleven (11) months of fiscal year, and within sixty (60) days after the end of the last month of each fiscal year, the Borrower shall furnish unaudited statements of income and expense for each Station, each Newspaper, the Porta-Phone Paging Business and the Satellite Broadcasting Business, which shall contain a comparison with budget or projections for such period and a comparison to the comparable period for the prior year, and which shall be certified by the chief financial officer, chief accounting officer or controller of the Borrower.

Section 6.4 Performance Certificates. At the time the financial statements are furnished pursuant to Sections 6.1 and 6.2, a certificate of the president, chief financial officer, chief accounting officer or controller of the Borrower as to its financial performance, in substantially the form attached hereto as Exhibit L:

(a) setting forth as and at the end of such quarterly period or fiscal year, as the case may be, the arithmetical calculations required to establish (i) any adjustment to the Applicable Margins, as provided for in Section 2.3(f) and (ii) whether or not the Borrower was in compliance with the requirements of Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof;

(b) stating that, to the best of his or her knowledge, no Default has occurred as at the end of such quarterly period or year, as the case may be, or, if a Default has occurred, disclosing each such Default and its nature, when it occurred, whether it is continuing and the steps being taken by the Borrower with respect to such Default; and

(c) containing a list of all Acquisitions, Investments (other than Cash Equivalents), Restricted Payments, Restricted Purchases and Asset Sales, in each case, which exceed \$1,000,000.00 per transaction or series of related transactions, for the four (4) quarter period then ended or most recently ended, together with the total amount for each of the foregoing categories.

Section 6.5 Copies of Other Reports.

(a) Promptly upon receipt thereof, copies of all reports, if any, submitted to the Borrower by the Borrower's independent public accountants regarding the Borrower, including, without limitation, any management report submitted to the board of directors of the Borrower prepared in connection with the annual audit referred to in Section 6.2 hereof.

(b) From time to time and promptly upon each request, such data, certificates, reports, statements, documents or further information regarding the business, assets, liabilities, financial position, projections, results of operations or business prospects of the Borrower or any of its Subsidiaries, as the Administrative Agent or any Lender may reasonably request.

(c) Annually, certificates of insurance indicating that the requirements of Section 5.5 hereof remain satisfied for such fiscal year, together with, upon request, copies of any new or replacement insurance policies obtained during such year.

(d) Within sixty (60) days of the beginning of each fiscal year, the annual budget for the Borrower and its Subsidiaries on a quarter by quarter basis.

(e) Promptly upon their becoming available, copies of (i) all financial statements, reports, notices and proxy statements sent or made available generally by the Borrower to its security holders or by any Subsidiary of the Borrower to its security holders other than the Borrower or another Subsidiary of the Borrower, (ii) all regular and periodic reports and all registration statements (other than on Form S-8 or a similar form) and prospectuses, if any, filed by the Borrower or any of its Subsidiaries with any securities exchange or with the Securities and Exchange Commission or any governmental or private regulatory authority, (iii) all press releases and other statements made available generally by the Borrower or any of its Subsidiaries to the public concerning material developments in the business of the Borrower or any of its Subsidiaries, (iv) any material non-routine correspondence or official notices received by the Borrower, or any of its Subsidiaries from the FCC or other communications regulatory authority, and (v) all material information filed by the Borrower or any of its Subsidiaries with the FCC (including all Ownership Reports and amendments or supplements to any Ownership Report).

(f) Promptly upon (i) receipt of notice of (A) any forfeiture, non-renewal, cancellation, termination, revocation, suspension, impairment or material modification of any material License held by the Borrower or any of its Subsidiaries, or any notice of default or forfeiture with respect to any such License, or (B) any refusal by any governmental agency or authority (including the FCC) to renew or extend any such License, a certificate specifying the nature of such event, the period of existence thereof, and what action the Borrower and its Subsidiaries are taking and propose to take with respect thereto, and (ii) any Acquisition of any Station, a written notice setting forth with respect to such Station all of the data required to be set forth in Schedule 3 with respect to such Stations and the Licenses required in connection with the ownership and operation of such Station (it being understood that such written notice shall be deemed to supplement Schedule 3 attached hereto for all purposes of this Agreement).

Section 6.6 Notice of Litigation and Other Matters. Notice specifying the nature and status of any of the following events, promptly, but in any event not later than fifteen (15) days after the occurrence of any of the following events becomes known to the Borrower:

(a) the commencement of all proceedings and investigations by or before any governmental body and all actions and proceedings in any court or before any arbitrator against the Borrower or any Subsidiary, or, to the extent known to the Borrower, which could have a Materially Adverse Effect;

(b) any material adverse change with respect to the business, assets, liabilities, financial position, annual budget, results of operations business prospects or projections of the

Borrower and its Subsidiaries, taken as a whole, other than changes in the ordinary course of business which have not had and would not reasonably be expected to have a Materially Adverse Effect and other than changes in the industry in which the Borrower or any of its Subsidiaries operate which would not reasonably be expected to have a Materially Adverse Effect;

(c) any Default or the occurrence or non-occurrence of any event (i) which constitutes, or which with the passage of time or giving of notice or both would constitute a default by the Borrower or any of its Subsidiaries under any material agreement other than this Agreement and the other Loan Documents to which the Borrower or any Subsidiary of the Borrower is party or by which any of their respective properties may be bound, including, without limitation, the Subordinated Note Indenture or any License, Operating Agreement or other material contract, or (ii) which could have a Materially Adverse Effect, giving in each case a description thereof and specifying the action proposed to be taken with respect thereto;

(d) the occurrence of any Reportable Event or a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) with respect to any Plan of the Borrower or any of its Subsidiaries or the institution or threatened institution by PBGC of proceedings under ERISA to terminate or to partially terminate any such Plan or the commencement or threatened commencement of any litigation regarding any such Plan or naming it or the trustee of any such Plan with respect to such Plan or any action taken by the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate of the Borrower to withdraw or partially withdraw from any Plan or to terminate any Plan; and

(e) the occurrence of any event subsequent to the Agreement Date which, if such event had occurred prior to the Agreement Date, would have constituted an exception to the representation and warranty in Section 4.1(m) of this Agreement.

ARTICLE 7

Negative Covenants

So long as any of the Obligations is outstanding and unpaid or the Lenders have an obligation to fund Advances hereunder (whether or not the conditions to borrowing have been or can be fulfilled), and unless the Required Lenders, or such greater number of Lenders as may be expressly provided herein, shall otherwise give their prior consent in writing:

Section 7.1 Indebtedness of the Borrower and its Subsidiaries. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, assume, incur or otherwise become or remain obligated in respect of, or permit to be outstanding, any Indebtedness except:

(a) the Obligations;

(b) accounts payable, accrued expenses (including taxes) and customer advance payments incurred in the ordinary course of business;

(c) Indebtedness secured by Permitted Liens which, together with Indebtedness permitted under Sections 7.1(f), (g), (h) and (i) (other than obligations incurred pursuant to an Acquisition as may be permitted in such Sections), shall not exceed \$5,000,000.00 in the aggregate at any time outstanding;

(d) obligations under Interest Rate Hedge Agreements;

(e) unsecured Indebtedness of the Borrower or any of its Subsidiaries to the Borrower or any other Subsidiary of the Borrower so long as the corresponding debt instruments are pledged to the Administrative Agent as security for the Obligations;

(f) Guaranties constituting Indebtedness permitted under Section 7.5 hereof which, together with Indebtedness permitted under Sections 7.1(c), (g), (h) and (i), (other than obligations incurred pursuant to an Acquisition as may be permitted in such Sections) shall not exceed \$5,000,000.00 in the aggregate at any time outstanding;

(g) with respect to any personal property, any conditional sale obligation, any purchase money obligation, any rental obligation, any purchase money security interest or any other arrangement for the use of personal property of any other Person, which in any such case has an unexpired term of not less than one (1) year, other than an arrangement constituting a Capitalized Lease Obligation, provided that the aggregate amount payable by the Borrower and its Subsidiaries pursuant to all such arrangements in any fiscal year, together with Indebtedness permitted under Section 7.1(c), (f), (h) and (i), (other than obligations incurred pursuant to a Permitted Acquisition as may be permitted in such Sections) shall not exceed \$5,000,000.00 in the aggregate at any time outstanding, plus the amount of any such obligations incurred pursuant to an Acquisition permitted under Section 7.6 hereof;

(h) any lease or rental obligation for real property which has an unexpired term of not less than one (1) year, provided that the aggregate amount payable in respect of all such arrangements by the Borrower and its Subsidiaries in any fiscal year, together with Indebtedness permitted under Sections 7.1(c), (f), (g) and (i) (other than obligations incurred pursuant to a Permitted Acquisition as may be permitted in such Sections) shall not exceed \$5,000,000.00 in the aggregate at any time outstanding, plus the amount of any such obligations incurred pursuant to an Acquisition permitted under Section 7.6 hereof;

(i) Capitalized Lease Obligations, provided that the aggregate amount payable by the Borrower and its Subsidiaries in respect of all such Capitalized Lease Obligations in any fiscal year, together with Indebtedness permitted under Sections 7.1(c), (f), (g) and (h), (other than obligations incurred pursuant to a Permitted Acquisition as may be permitted in such Sections) shall not exceed \$5,000,000.00 in the aggregate at any time outstanding, plus the amount of any such obligations incurred pursuant to an Acquisition permitted under Section 7.6 hereof;

(j) Subordinated Debt incurred pursuant to the terms of the Subordinated Note Indenture as in effect on the date hereof in a principal amount not to exceed \$160,000,000, or Indebtedness incurred in refinancing such Subordinated Debt, provided such refinancing Indebtedness is on terms and conditions satisfactory to the Required Lenders; and

(k) Indebtedness of the Borrower and its Subsidiaries existing as of the Agreement Date as set forth on Schedule 7 attached hereto.

Section 7.2 Limitation on Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, assume, incur or permit to exist or to be created, assumed, incurred or permitted to exist, directly or indirectly, any Lien on any of its properties or assets, whether now owned or hereafter acquired, except for Permitted Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to undertake, covenant or agree with any third party that it will not create, assume, incur or permit to exist any lien in the favor the Administrative Agent or the Lenders securing the Obligations on any of its assets or properties, whether now owned or hereafter acquired, except for Permitted Liens.

Section 7.3 Amendment and Waiver. The Borrower shall not, and shall not permit any of its Subsidiaries to, enter into any amendment of, or agree to or accept or consent to any waiver of any of the provisions of its articles or certificate of incorporation, or its partnership agreement or its by-laws, as appropriate, any License or Operating Agreement or any of the documents evidencing Subordinated Debt, in each case, in any respect materially adverse to the Administrative Agent or any Lender or any of their rights or claims under any of the Loan Documents.

Section 7.4 Liquidation, Merger or Disposition of Assets.

(a) Disposition of Assets. The Borrower shall not, and shall not permit any of its Subsidiaries to, make any Asset Sale; provided, however, that the Borrower and its Subsidiaries, or any of them, may make Asset Sales if such Asset Sales (i) are in the ordinary course of business of assets held for resale in the ordinary course of business or the trade in or replacement of assets in the ordinary course of business, (ii) do not exceed, for any transaction or series of related transactions, \$1,000,000.00 per fiscal year or (iii) (A) involve the disposition of substantially all of the assets of the Porta-Phone Paging Business or the Satellite Broadcasting Business and (B) the proceeds of such Asset Sales are applied pursuant to Section 2.7(b)(iii) hereof.

(b) Liquidation or Merger. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time liquidate or dissolve itself (or suffer any liquidation or dissolution) or otherwise wind up, or enter into any merger, other than (so long as no Default exists or would be caused thereby): (i) a merger or consolidation among the Borrower and one or more of its Subsidiaries, provided the Borrower is the surviving corporation, or (ii) a merger between or among two or more Subsidiaries of the Borrower, or (iii) in connection with an Acquisition permitted hereunder effected by a merger in

which the Borrower or, in a merger in which the Borrower is not a party, a Subsidiary of the Borrower is the surviving corporation or the surviving corporation becomes a Subsidiary of the Borrower.

Section 7.5 Limitation on Guaranties. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time Guaranty, assume, be obligated with respect to, or permit to be outstanding any Guaranty of, any obligation of any other Person other than: (a) a guaranty by endorsement of negotiable instruments for collection in the ordinary course of business; (b) as may be contained in any Loan Document; or (c) Guaranties of Indebtedness incurred as permitted pursuant to Section 7.1(f) hereof and the Borrower provides to the Administrative Agent and the Lenders calculations in form and substance reasonably satisfactory to the Administrative Agent, specifically demonstrating compliance with Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof after giving effect to such Guaranty.

Section 7.6 Investments and Acquisitions. The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly make any Acquisition or Investment; provided, however, that so long as no Default or Event of Default exists or would be caused thereby the Borrower and its Subsidiaries may:

(a) make Investments in Cash Equivalents;

(b) make Investments in Subsidiaries;

(c) provided that the Borrower complies with Sections 5.13 and 5.16 hereof in connection therewith, and provides to the Administrative Agent and the Lenders within ten (10) days prior to the consummation of the proposed Acquisition an acquisition report signed by an executive officer of the Borrower, in form and substance reasonably satisfactory to the Administrative Agent, which shall include, without limitation, (X) financial calculations specifically demonstrating the Borrower's pro forma compliance with Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof after giving effect to such Acquisition and (Y) financial projections for the Borrower for a five (5) year period after the closing of such Acquisition after giving effect to such Acquisition, including, without limitation, a statement of sources and uses of funds for such Acquisition showing, among other things, the sources of financing for such Acquisition, and demonstrating Borrower's ability to meet its repayment obligations hereunder through the Maturity Date, the Borrower and its Subsidiaries may make Acquisitions of Stations or Newspapers subject to satisfaction of the following conditions:

(i) any Station to be acquired (A) shall be located in any of the top one hundred twenty-five (125) United States markets, as ranked by Designated Market Area as determined by Nielsen Media Research, (B) shall be a CBS, NBC, ABC or FOX network affiliate and located in a market ranked one hundred twenty-six (126) through and including one hundred seventy-five (175), as ranked by Designated Market Area as determined by Nielsen Media Research, or (C) shall be located in, or adjacent to, a market in which the Borrower or any of its Subsidiaries owns a Station;

(ii) any Newspaper to be acquired shall be a daily newspaper with a minimum paid circulation of 15,000;

(iii) the Borrower shall have given to the Administrative Agent written notice of such Acquisition at least fifteen (15) days prior to executing any binding commitment with respect thereto, which notice shall state the additional amounts, if any, by which the Borrower proposes to increase the dollar limitations set forth in Sections 7.1(g), (h) and (i) hereof; and the structure of the transaction shall be in form and substance acceptable to the Administrative Agent;

(iv) if such Acquisition is of a Station that does not have an affiliation agreement with ABC, CBS, NBC or FOX, the Borrower shall negotiate in good faith with the Administrative Agent, on behalf of the Lenders, regarding a limitation, to be added upon consent of the Required Lenders as a negative covenant to this Agreement, on the annual amount of its Programming Obligations; and

(v) the agreement governing such Acquisition and all related documents and instruments shall be in form and substance satisfactory to the Administrative Agent;

(d) acquire from Bull Run Corporation a seventy-three percent (73%) economic interest and a thirty-three and one-half percent (33.5%) voting interest in Sarkes Tarzian for a purchase price of \$10,000,000.00 plus transaction and related costs and options for the purchase of certain of the Borrower's stock; provided, that on or prior to the consummation of such Investment, the Borrower shall provide to the Administrative Agent, in form and substance satisfactory to the Administrative Agent, (i) evidence that the Borrower has pledged such economic and voting interests as additional collateral securing the Obligations under the Loan Agreement, (ii) certification of the Borrower's compliance with Section 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof and under through the Maturity Date after giving effect to such Investment, (iii) certification that no Default or Event of Default exists or will be caused by such Investment, and (iv) evidence of consummation of such Investment on substantially the terms and conditions set forth in that certain Stock Option Agreement dated as of February 28, 1999 between the Borrower and Bull Run Corporation; and

(e) provided that the Borrower complies with Sections 5.13 and 5.16 hereof in connection therewith, and provides to the Administrative Agent and the Lenders within ten (10) days prior to the consummation of the proposed Acquisition an acquisition report signed by an executive officer of the Borrower, in form and substance reasonably satisfactory to the Administrative Agent, which shall include, without limitation, (X) financial calculations specifically demonstrating the Borrower's pro forma compliance with Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof after giving effect to such Acquisition and (Y) financial projections for the Borrower for a five (5) year period after the closing of such Acquisition after giving effect to such Acquisition, including, without limitation, a statement of sources and uses of funds for such Acquisition showing, among other things, the sources of financing for such Acquisition, and demonstrating Borrower's ability to meet its repayment obligations hereunder

through the Maturity Date, the Borrower and its Subsidiaries may make Acquisitions of or Investments in Stations, Newspapers, the Porta-Phone Paging Business, the Satellite Broadcasting Business or other media related businesses in an aggregate amount not to exceed \$1,000,000.00 per transaction or series of related transactions per fiscal year; and

(f) The Borrower may make such other Acquisitions as may be approved from time to time by the Required Lenders in their sole discretion.

Section 7.7 Restricted Payments; Restricted Purchases. The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly declare or make any Restricted Payment or Restricted Purchase; provided, however, that:

(a) any Subsidiary of the Borrower may make Restricted Payments to the Borrower or to a wholly-owned Subsidiary of the Borrower;

(b) the Borrower may redeem its existing preferred or common stock and purchase subordinated notes in the open market issued under the Subordinated Note Indenture so long as no Default or Event of Default exists at the time of making such payment or purchase or would exist after giving effect thereto;

(c) the Borrower may make payments of current interest on the senior subordinated notes issued pursuant to and in accordance with the Subordinated Note Indenture; and

(d) the Borrower may make Restricted Payments and Restricted Purchases (other than as set forth above in clause (a), (b) or (c) of this Section 7.7), provided that: (A) prior to making any such payment or purchase, the Borrower shall have demonstrated to the satisfaction of the Administrative Agent that the Borrower will be in compliance with all of the covenants contained herein after giving effect to such payment or purchase; (B) no Default or Event of Default exists at the time of making such payment or purchase or would exist after giving effect thereto; and (C) prior to making any such payment or purchase, the Borrower shall have delivered to the Administrative Agent a certificate of its chief financial officer, chief accounting officer or controller in form and substance satisfactory to the Administrative Agent which shall contain calculations demonstrating on a pro forma basis the Borrower's compliance with Sections 7.8, 7.9, 7.10, 7.11, 7.12, 7.13 and 7.14 hereof after giving effect to such payment or purchase.

Section 7.8 Senior Leverage Ratio. (a) As of the end of any fiscal quarter, (b) at the time of the issuance of any Letter of Credit (after giving effect to such Letter of Credit), and (c) the time of any Advance hereunder (after giving effect to such Advance), the Borrower shall not permit its Senior Leverage Ratio to exceed the ratios set forth below during the periods indicated:

Period -----	Senior Leverage Ratio -----
Agreement Date through December 31, 2000	4.25:1.00
January 1, 2001 and thereafter	4.00:1.00

Section 7.9 Interest Coverage Ratio. (a) As of the end of any fiscal quarter, (b) at the time of the issuance of any Letter of Credit (after giving effect to such Letter of Credit), and (c) the time of any Advance hereunder (after giving effect to such Advance), the Borrower shall not permit its Interest Coverage Ratio to be less than the ratio set forth below for the periods indicated:

Period -----	Interest Coverage Ratio -----
Agreement Date through June 30, 2000	1.40:1.00
July 1, 2000 and thereafter	1.50:1.00

Section 7.10 Fixed Charge Coverage Ratio. (a) As of the end of any fiscal quarter, (b) at the time of the issuance of any Letter of Credit (after giving effect to such Letter of Credit) and (c) at the time of any Advance hereunder (after giving effect to such Advance) the Borrower shall not permit the Fixed Charge Coverage Ratio to be less than 1.0:1.0.

Section 7.11 Pro Forma Debt Service Coverage Ratio. (a) As of the end of any fiscal quarter, (b) at the time of the issuance of any Letter of Credit (after giving effect to such Letter of Credit) and (c) at the time of any Advance hereunder (after giving effect to such Advance) the Borrower shall not permit its Pro Forma Debt Service Coverage Ratio to be less than 1.10:1.0.

Section 7.12 Leverage Ratio. (a) As of the end of any fiscal quarter, (b) at the time of the issuance of any Letter of Credit (after giving effect to such Letter of Credit) and (c) at the time of any Advance hereunder (after giving effect to such Advance) the Borrower shall not permit its Leverage Ratio to exceed the ratios set forth below during the periods indicated:

Period -----	Leverage Ratio -----
Agreement Date through March 31, 2000	7.15:1.00
April 1, 2000 through June 30, 2000	6.95:1.00
July 1, 2000 through December 31, 2000	6.50:1.00
January 1, 2001 and thereafter	6.40:1.00

Section 7.13 Adjusted Leverage Ratio. (a) As of the end of any fiscal quarter, (b) at the time of the issuance of any Letter of Credit (after giving effect to such Letter of Credit) and (c) at the time of any Advance hereunder (after giving effect to such Advance) the Borrower shall not permit its Adjusted Leverage Ratio to exceed the ratios set forth below during the periods indicated:

Period -----	Leverage Ratio -----
Agreement Date through March 31, 2000	7.15:1.00
April 1, 2000 through June 30, 2000	6.95:1.00
July 1, 2000 through December 31, 2000	6.50:1.00
January 1, 2001 through December 31, 2001	6.25:1.00
January 1, 2002 through December 31, 2003	6.00:1.00
January 1, 2004 and thereafter	5.00:1.00

Section 7.14 Limitation on Capital Expenditures. The Borrower shall not, and shall not permit its Subsidiaries to, make Capital Expenditures during the period from January 1, 2000 through December 31, 2002 other than Capital Expenditures in an amount not to exceed \$15,500,000.00 in the aggregate per fiscal year.

Section 7.15 Affiliate Transactions. Except as specifically provided herein and as may be described on Schedule 6 attached hereto, the Borrower shall not, and shall not permit any of its Subsidiaries to, at any time engage in any transaction with an Affiliate, or make an assignment or other transfer of any of its properties or assets to any Affiliate on terms no less advantageous to the Borrower or such Subsidiary than would be the case if such transaction had been effected with a non-Affiliate.

Section 7.16 Real Estate. Neither the Borrower nor any of its Subsidiaries shall purchase any real estate or enter into any sale-leaseback transaction except (a) as contemplated in

an Acquisition permitted under Section 7.6 hereof and (b) real estate purchases useful in connection with the Borrower's business made in the ordinary course of business.

Section 7.17 ERISA Liabilities. The Borrower shall not, and shall cause each of its ERISA Affiliates not to, (i) permit the assets of any of their respective Plans to be materially less than the amount necessary to provide all accrued benefits under such Plans, or (ii) enter into any Multiemployer Plan.

Section 7.18 No Limitation on Upstream Dividends by Subsidiaries. The Borrower shall not permit any Subsidiary to enter into or agree, or otherwise become subject (other than pursuant to Applicable Law), to any agreement, contract or other arrangement with any Person pursuant to the terms of which (a) such Subsidiary is or would be prohibited from or limited in declaring or paying any cash dividends or distributions on any class of its Ownership Interests owned directly or indirectly by the Borrower or from making any other distribution on account of any class of any such Ownership Interests (herein referred to as "Upstream Dividends") or (b) the declaration or payment of Upstream Dividends by a Subsidiary to the Borrower or to another Subsidiary, on an annual or cumulative or other basis, is or would be otherwise limited or restricted.

ARTICLE 8

Default

Section 8.1 Events of Default. Each of the following shall constitute an Event of Default, whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment or order of any court or any order, rule or regulation of any governmental or non-governmental body:

(a) Any representation or warranty made under this Agreement shall prove incorrect or misleading in any material respect when made or deemed to be made pursuant to Section 4.2 hereof;

(b) The Borrower shall default in the payment of: (i) any interest under any of the Notes or fees or other amounts payable to the Lenders and the Administrative Agent under any of the Loan Documents, or any of them, when due, and such Default shall not be cured by payment in full within three (3) Business Days from the due date; or (ii) any principal under any of the Notes when due;

(c) The Parent or the Borrower shall default in the performance or observance of any agreement or covenant contained in Sections 5.2(a), 5.10, 5.13, 5.16 or 5.20 hereof or in Articles 6 or 7 hereof;

(d) The Borrower shall default in the performance or observance of any other agreement or covenant contained in this Agreement not specifically referred to elsewhere in this

Section 8.1, and such default shall not be cured within a period of thirty (30) days from the occurrence of such Default;

(e) There shall occur any default in the performance or observance of any agreement or covenant or breach of any representation or warranty contained in any of the Loan Documents (other than this Agreement or as otherwise provided in Section 8.1 hereof) by the Borrower, any of its Subsidiaries, or any other obligor thereunder, which shall not be cured within a period of thirty (30) days from the occurrence of such Default;

(f) There shall be entered and remain unstayed a decree or order for relief in respect of the Borrower or any of its Subsidiaries under Title 11 of the United States Code, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy law or other similar law, or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official of the Borrower or any of its Subsidiaries, or of any substantial part of their respective properties, or ordering the winding-up or liquidation of the affairs of the Borrower, or any of its Subsidiaries; or an involuntary petition shall be filed against the Borrower or any of its Subsidiaries and a temporary stay entered, and (i) such petition and stay shall not be diligently contested, or (ii) any such petition and stay shall continue undismissed for a period of sixty (60) consecutive days;

(g) The Borrower or any of its Subsidiaries shall file a petition, answer or consent seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy law or other similar law, or the Borrower or any of its Subsidiaries shall consent to the institution of proceedings thereunder or to the filing of any such petition or to the appointment or taking of possession of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Borrower or any of its Subsidiaries or of any substantial part of their respective properties, or the Borrower or any of its Subsidiaries shall fail generally to pay their respective debts as they become due or shall be adjudicated insolvent; the Borrower shall suspend or discontinue its business; the Borrower or any of its Subsidiaries shall have concealed, removed any of its property with the intent to hinder or defraud its creditors or shall have made a fraudulent or preferential transfer under any applicable fraudulent conveyance or bankruptcy law, or the Borrower or any of its Subsidiaries shall take any action in furtherance of any such action;

(h) A judgment not covered by insurance or indemnification, where the indemnifying party has agreed to indemnify and is financially able to do so, shall be entered by any court against the Borrower or any of its Subsidiaries for the payment of money which exceeds singly or in the aggregate with other such judgments, \$250,000.00, or a warrant of attachment or execution or similar process shall be issued or levied against property of the Borrower or any of its Subsidiaries which, together with all other such property of the Borrower or any of its Subsidiaries subject to other such process, exceeds in value \$250,000.00 in the aggregate, and if, within thirty (30) days after the entry, issue or levy thereof, such judgment, warrant or process shall not have been paid or discharged or stayed pending appeal or removed to bond, or if, after the expiration of any such stay, such judgment, warrant or process shall not have been paid or discharged or removed to bond;

(i) There shall be at any time any material "accumulated funding deficiency," as defined in ERISA or in Section 412 of the Code, with respect to any Plan maintained by the Borrower or any of its Subsidiaries or any ERISA Affiliate, or to which the Borrower or any of its Subsidiaries or any ERISA Affiliate has any liabilities, or any trust created thereunder; or a trustee shall be appointed by a United States District Court to administer any such Plan; or PBGC shall institute proceedings to terminate any such Plan; or the Borrower or any of its Subsidiaries or any ERISA Affiliate shall incur any liability to PBGC in connection with the termination of any such Plan; or any Plan or trust created under any Plan of the Borrower or any of its Subsidiaries or any ERISA Affiliate shall engage in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) which would subject any such Plan, any trust created thereunder, any trustee or administrator thereof, or any party dealing with any such Plan or trust to the tax or penalty on "prohibited transactions" imposed by Section 502 of ERISA or Section 4975 of the Code;

(j) There shall occur (i) any default under any instrument, document or agreement relating to any Indebtedness of the Borrower or any of its Subsidiaries in an aggregate principal amount exceeding \$250,000.00; (ii) any event or condition the occurrence of which would permit such acceleration of such Indebtedness, or which, as a result of a failure to comply with the terms thereof, would make such Indebtedness otherwise due and payable, and which event or condition has not been cured within any applicable cure period or waived in writing prior to any declaration of an Event of Default or acceleration of the Loans hereunder; or (iii) any material default under any Interest Rate Hedge Agreement which would permit the obligation of the Borrower to make payments to the counterparty thereunder to be then due and payable;

(k) Any Loan Document or any material provision thereof, shall at any time and for any reason be declared by a court of competent jurisdiction to be null and void, or a proceeding shall be commenced by the Borrower or any of its Subsidiaries or by any governmental authority having jurisdiction over the Borrower or any of its Subsidiaries seeking to establish the invalidity or unenforceability thereof (exclusive of questions of interpretation of any provision thereof), or the Borrower or any of its Subsidiaries shall deny that it has any liability or obligation for the payment of principal or interest purported to be created under any Loan Document;

(l) Any Security Document shall for any reason, fail or cease (except by reason of lapse of time) to create a valid and perfected and first-priority Lien on or Security Interest in any portion of the Collateral purported to be covered thereby, subject only to Permitted Liens;

(m) (i) Any Person (or group of Persons) is or becomes the "beneficial owner" (within the meaning of Rules 13d-3 and 13d-5 under the federal Securities Exchange Act of 1934, as amended), directly or indirectly, of a percentage of the voting Ownership Interests of the Borrower greater than thirty-five percent (35%), other than J. Mack Robinson or Robert S. Prather, Jr., the spouse and lineal descendants or either such individual, the estate, executor,

administrator, or other personal representative of either such individual, or any trust created for either such individual or for the spouse or lineal descendants of either such individual; or (ii) during any period of twenty-four (24) consecutive months, individuals who at the beginning of such period constituted the Board of Directors of the Borrower (together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Borrower was approved by a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or (iii) except as permitted pursuant to this Agreement, the Borrower shall cease or fail to own, directly or indirectly, beneficial and legal title to all of the issued and outstanding Ownership Interests of each of its Subsidiaries or any Subsidiary of the Borrower shall cease to be a wholly-owned Subsidiary of the Borrower;

(n) Any material License shall be cancelled, terminated, rescinded, revoked, suspended, impaired, otherwise finally denied renewal, or otherwise modified in any material adverse respect, or shall be renewed on terms that materially and adversely affect the economic or commercial value or usefulness thereof; or any material License shall cease to be in full force and effect; or the grant of any material License shall have been stayed, vacated or reversed, or modified in any material adverse respect by judicial or administrative proceedings; or any administrative law judge or other representative of the shall have issued an initial decision in any non-comparative material License renewal, material License revocation or any comparative (multiple applicant) proceeding to the effect that any material License should be revoked or not be renewed; or any other proceeding shall have been instituted by or shall have been commenced before any court, the or any other regulatory body that could reasonably be expected to result in (i) cancellation, termination, rescission, revocation, material impairment, suspension or denial of renewal of a material License, or (ii) a modification of a material License in a material adverse respect or a renewal thereof on terms that materially and adversely affect the economic or commercial value or usefulness thereof;

(o) Any Operating Agreement or any other agreement which is necessary to the operation of a Station, a Newspaper, the Porta-Phone Paging Business or the Satellite Broadcasting Business shall be revoked or terminated or materially, adversely modified and not replaced by a substitute acceptable to the Required Lenders within thirty (30) days of such revocation, termination or modification;

(p) The Borrower's on-the-air broadcast operations at any Station shall be interrupted at any time for more than forty-eight (48) hours, whether or not consecutive, during any period of five (5) consecutive days, unless (a) the broadcasting operations of all or substantially all of the Stations in the relevant market also are interrupted for a like period of time, or (b) the Borrower shall be receiving during such period of interruption insurance sufficient to assure that its per diem Operating Cash Flow during such period is at least equal to that which could reasonably have been expected during such period but for the interruption;

(q) The Borrower or any holder of Subordinated Debt shall fail to comply with the agreement or instrument governing or evidencing such Subordinated Debt or any

separate subordination agreement, and the Administrative Agent shall have determined that such failure to comply could reasonably be expected to have a material adverse effect on the Borrower or any of its Subsidiaries or on its ability to perform its obligations hereunder or under any of the Loan Documents or on the rights and remedies of the Administrative Agent and the Lenders hereunder or under the Loan Documents; or

(r) There shall occur any Materially Adverse Effect.

Section 8.2 Remedies.

(a) If an Event of Default specified in Section 8.1 hereof (other than an Event of Default under Section 8.1(f) or (g) hereof) shall have occurred and shall be continuing, the Administrative Agent, at the request of the Required Lenders subject to Section 9.8(a) hereof, shall (i) (A) terminate the Commitments, and/or (B) declare the principal of and interest on the Loans and the Notes and all other amounts owed to the Lenders and the Administrative Agent under this Agreement, the Notes and any other Loan Documents to be forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement, the Notes or any other Loan Document to the contrary notwithstanding, and the Commitments shall thereupon forthwith terminate and (ii) require the Borrower to, and the Borrower shall thereupon, deposit in an interest bearing account with the Administrative Agent, as cash collateral for the Obligations, an amount equal to the maximum amount currently or at any time thereafter to be drawn on all outstanding Letters of Credit, and the Borrower hereby pledges to the Administrative Agent, the Lenders and the Issuing Bank and grants to them a security interest in, all such cash as security for the Obligations.

(b) Upon the occurrence and continuance of an Event of Default specified in Section 8.1(f) or (g) hereof, all principal, interest and other amounts due hereunder and under the Notes, and all other Obligations, shall thereupon and concurrently therewith become due and payable and the Commitments shall forthwith terminate and the principal amount of the Loans outstanding hereunder shall bear interest at the Default Rate, and the Borrower shall thereupon, deposit in an interest bearing account with the Administrative Agent, as cash collateral for the Obligations, an amount equal to the maximum amount currently or at any time thereafter to be drawn on all outstanding Letters of Credit, all without any action by the Administrative Agent, the Lenders, the Required Lenders and the Issuing Bank, or any of them, and without presentment, demand, protest or other notice of any kind, all of which are expressly waived, anything in this Agreement or in the other Loan Documents to the contrary notwithstanding, and the Borrower hereby pledges to the Administrative Agent, the Lenders and the Issuing Bank and grants to them a security interest in, all such cash as security for the Obligations.

(c) Upon acceleration of the Notes, as provided in subsection (a) or (b) of this Section 8.2, the Administrative Agent and the Lenders shall have all of the post-default rights granted to them, or any of them, as applicable under the Loan Documents and under Applicable Law.

(d) Upon acceleration of the Notes, as provided in subsection (a) or (b) of this Section 8.2, the Administrative Agent shall have the right (but not the obligation) upon the request of the Lenders to operate the business of the Borrower and its Subsidiaries in accordance with the terms of the Licenses and pursuant to the terms and subject to any limitations contained in the Security Documents and, within guidelines established by the Required Lenders, to make any and all payments and expenditures necessary or desirable in connection therewith, including, without limitation, payment of wages as required under the Fair Labor Standards Act, as amended, and of any necessary withholding taxes to state or federal authorities. In the event the Required Lenders fail to agree upon the guidelines referred to in the preceding sentence within six (6) Business Days after the Administrative Agent has begun to operate the business of the Borrower, the Administrative Agent may, after giving three (3) days' prior written notice to the Lenders of its intention to do so, make such payments and expenditures as it deems reasonable and advisable in its sole discretion to maintain the normal day-to-day operation of such business. Such payments and expenditures in excess of receipts shall constitute Advances under this Agreement, not in excess of the amount of the Commitments. Advances made pursuant to this Section 8.2(d) shall bear interest as provided in Section 2.3(d) hereof and shall be payable on demand. The making of one or more Advances under this Section 8.2(d) shall not create any obligation on the part of the Lenders to make any additional Advances hereunder. No exercise by the Administrative Agent of the rights granted to it under this Section 8.2(d) shall constitute a waiver of any other rights and remedies granted to the Administrative Agent and the Lenders, or any of them, under this Agreement or at law. The Borrower hereby irrevocably appoints the Administrative Agent as agent for the Lenders, the true and lawful attorney of the Borrower, in its name and stead and on its behalf, to execute, receipt for or otherwise act in connection with any and all contracts, instruments or other documents in connection with the operation of the Borrower's business in the exercise of the Administrative Agent's and the Lenders' rights under this Section 8.2(d). Such power of attorney is coupled with an interest and is irrevocable. The rights of the Administrative Agent under this Section 8.2(d) shall be subject to its prior compliance with Applicable Law to the extent applicable to the exercise of such rights.

(e) Upon acceleration of the Notes, as provided in subsection (a) or (b) of this Section 8.2, the Administrative Agent, upon request of the Required Lenders, shall have the right to the appointment of a receiver for the properties and assets of the Borrower and its Subsidiaries, and the Borrower, for itself and on behalf of its Subsidiaries, hereby consents to such rights and such appointment and hereby waives any objection the Borrower or any Subsidiary may have thereto or the right to have a bond or other security posted by the Administrative Agent on behalf of the Lenders, in connection therewith. The rights of the Administrative Agent under this Section 8.2(e) shall be subject to its prior compliance with Applicable Law to the extent applicable to the exercise of such rights.

(f) The rights and remedies of the Administrative Agent and the Lenders hereunder shall be cumulative, and not exclusive.

Section 8.3 Payments Subsequent to Declaration of Event of Default. Subsequent to the acceleration of the Loans under Section 8.2 hereof, payments and prepayments under this Agreement made to the Administrative Agent and the Lenders or otherwise received by any of

such Persons (from realization on Collateral for the Obligations or otherwise) shall be paid over to the Administrative Agent (if necessary) and distributed by the Administrative Agent as follows: first, to the Administrative Agent's reasonable costs and expenses, if any, incurred in connection with the collection of such payment or prepayment, including, without limitation, any reasonable costs incurred by it in connection with the sale or disposition of any Collateral for the Obligations and all amounts under Section 11.2(b) and (c) hereof; second, to the Lenders, the Issuing Bank or the Administrative Agent for any fees hereunder or under any of the other Loan Documents then due and payable; third, to be deposited as set forth in Section 8.2(a) or (b) hereof; fourth, to the Lenders pro rata (except as provided in Section 2.2(e) hereof), to the payment of any unpaid interest which may have accrued on the Obligations; fifth, to the Lenders pro rata based on the Loans then outstanding until all Loans have been paid in full (and, for purposes of this clause, obligations under Interest Rate Hedge Agreements with the Lenders or any of them shall be paid on a pro rata basis with the Loans); sixth, to the Lenders pro rata based on the Loans outstanding to the payment of any other unpaid Obligations; seventh, to damages incurred by the Administrative Agent, the Issuing Bank and the Lenders, or any of them, by reason of any breach hereof or of any other Loan Document; and eighth, to the Borrower or as otherwise required by law.

ARTICLE 9

The Administrative Agent

Section 9.1 Appointment and Authorization. Each Lender hereby irrevocably appoints and authorizes, and hereby agrees that it will require any transferee of any of its interest in its portion of the Loans and in its Note irrevocably to appoint and authorize, the Administrative Agent to take such actions as its agent on its behalf and to exercise such powers hereunder and under the other Loan Documents as are delegated by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. Neither the Administrative Agent, nor any of its respective directors, officers, employees or agents, shall be liable for any action taken or omitted to be taken by it or them hereunder or in connection herewith, except for its or their own gross negligence or willful misconduct as determined by a final, non-appealable judicial order of a court of competent jurisdiction.

Section 9.2 Interest Holders. The Administrative Agent may treat each Lender, or the Person designated in the last notice filed with the Administrative Agent, as the holder of all of the interests of such Lender in its portion of the Loans and in its Note until written notice of transfer, signed by such Lender (or the Person designated in the last notice filed with the Administrative Agent) and by the Person designated in such written notice of transfer, in form and substance reasonably satisfactory to the Administrative Agent, shall have been filed with the Administrative Agent.

Section 9.3 Consultation with Counsel. The Administrative Agent may consult with Powell, Goldstein, Frazer & Murphy LLP, Atlanta, Georgia, special counsel to the Administrative Agent, or with other legal counsel selected by it and shall not be liable for any

action taken or suffered by it in good faith in consultation with the Required Lenders and in reasonable reliance on such consultations.

Section 9.4 Documents. The Administrative Agent shall be under no duty to examine, inquire into, or pass upon the validity, effectiveness or genuineness of this Agreement, any Note, any other Loan Document, or any instrument, document or communication furnished pursuant hereto or in connection herewith, and the Administrative Agent shall be entitled to assume that they are valid, effective and genuine, have been signed or sent by the proper parties and are what they purport to be.

Section 9.5 Administrative Agent and Affiliates. With respect to the Commitments and the Loans, the Administrative Agent shall have the same rights and powers hereunder as any other Lender and the Administrative Agent and Affiliates of the Administrative Agent may accept deposits from, lend money to and generally engage in any kind of business with the Borrower, any of its Subsidiaries or any Affiliates of, or Persons doing business with the Borrower, as if they were not affiliated with the Administrative Agent and without any obligation to account therefor.

Section 9.6 Responsibility of the Administrative Agent and the Issuing Bank. The duties and obligations of the Administrative Agent and the Issuing Bank under this Agreement are only those expressly set forth in this Agreement. Each of the Administrative Agent and the Issuing Bank shall be entitled to assume that no Default or Event of Default has occurred and is continuing unless it has actual knowledge, or has been notified in writing by the Borrower, of such fact, or has been notified by a Lender in writing that such Lender considers that a Default or an Event of Default has occurred and is continuing, and such Lender shall specify in detail the nature thereof in writing. Each of the Administrative Agent and the Issuing Bank shall not be liable hereunder for any action taken or omitted to be taken except for its own respective gross negligence or willful misconduct as determined by a final, non-appealable judicial order of a court of competent jurisdiction. The Administrative Agent and the Issuing Bank shall provide each Lender with copies of such documents received from the Borrower as such Lender may reasonably request.

Section 9.7 Action by the Administrative Agent and the Issuing Bank.

(a) Each of the Administrative Agent and the Issuing Bank shall be entitled to use its discretion with respect to exercising or refraining from exercising any rights which may be vested in it by, and with respect to taking or refraining from taking any action or actions which it may be able to take under or in respect of, this Agreement, unless the Administrative Agent or the Issuing Bank shall have been instructed by the Required Lenders to exercise or refrain from exercising such rights or to take or refrain from taking such action; provided that neither the Administrative Agent nor the Issuing Bank shall exercise any rights under Section 8.2(a) hereof without the request of the Required Lenders (or, where expressly required, all of the Lenders) unless time is of the essence. Each of the Administrative Agent and the Issuing Bank shall incur no liability under or in respect of this Agreement with respect to anything which it may do or refrain from doing in the reasonable exercise of its judgment or which may seem to

it to be necessary or desirable in the circumstances, except for its own respective gross negligence or willful misconduct as determined by a final, non-appealable judicial order of a court having jurisdiction over the subject matter.

(b) Neither the Administrative Agent nor the Issuing Bank shall be liable to the Lenders, or to any Lender, or the Borrower or any its Subsidiaries in acting or refraining from acting under this Agreement or any other Loan Document in accordance with the instructions of the Required Lenders (or, where expressly required, all of the Lenders), and any action taken or failure to act pursuant to such instructions shall be binding on all Lenders, except for its own respective gross negligence or willful misconduct as determined by a final, non-appealable judicial order of a court having jurisdiction over the subject matter. Neither the Administrative Agent nor the Issuing Bank shall be obligated to take any action which is contrary to law or which would in such Person's reasonable opinion subject such Person to liability.

Section 9.8 Notice of Default or Event of Default. In the event that the Administrative Agent, the Issuing Bank or any Lender shall acquire actual knowledge, or shall have been notified, of any Default or Event of Default, the Administrative Agent, the Issuing Bank or such Lender shall promptly notify the Lenders (provided failure to give such notice shall not result in any liability on the part of such Lender, the Issuing Bank or Administrative Agent), and the Administrative Agent and the Issuing Bank shall take such action and assert such rights under this Agreement and the other Loan Documents as the Required Lenders shall request in writing, and neither the Administrative Agent nor the Issuing Bank shall be subject to any liability by reason of its acting pursuant to any such request. If the Required Lenders shall fail to request the Administrative Agent and the Issuing Bank to take action or to assert rights under this Agreement or any other Loan Documents in respect of any Default or Event of Default within ten (10) days after their receipt of the notice of any Default or Event of Default from the Administrative Agent, the Issuing Bank or any Lender, or shall request inconsistent action with respect to such Default or Event of Default, the Administrative Agent and the Issuing Bank, or either of them, may, but shall not be required to, take such action and assert such rights (other than rights under Article 8 hereof) as it deems in their or its respective discretion to be advisable for the protection of the Lenders, except that, if the Required Lenders have instructed the Administrative Agent and the Issuing Bank not to take such action or assert such right, in no event shall the Administrative Agent and the Issuing Bank act contrary to such instructions unless time is of the essence.

Section 9.9 Responsibility Disclaimed. The Administrative Agent shall not be under any liability or responsibility whatsoever as Administrative Agent:

(a) To the Borrower or any other Person as a consequence of any failure or delay in performance by or any breach by, any Lender or Lenders of any of its or their obligations under this Agreement;

(b) To any Lender or Lenders, as a consequence of any failure or delay in performance by, or any breach by, (i) the Borrower of any of its obligations under this

Agreement or the Notes or any other Loan Document, or (ii) any Subsidiary of the Borrower or any other obligor under any other Loan Document;

(c) To any Lender or Lenders, for any statements, representations or warranties in this Agreement, or any other document contemplated by this Agreement or any information provided pursuant to this Agreement, any other Loan Document, or any other document contemplated by this Agreement, or for the validity, effectiveness, enforceability or sufficiency of this Agreement, the Notes, any other Loan Document, or any other document contemplated by this Agreement; or

(d) To any Person for any act or omission other than that arising from gross negligence or willful misconduct of the Administrative Agent as determined by a final, non-appealable judicial order of a court of competent jurisdiction.

Section 9.10 Indemnification. The Lenders agree to indemnify the Administrative Agent (to the extent not reimbursed by the Borrower) pro rata according to their respective Commitment Ratios, from and against any and all liabilities, obligations, losses (other than the loss of principal and interest hereunder in the event of a bankruptcy or out-of-court 'work-out' of the Loans), damages, penalties, actions, judgments, suits, costs, expenses (including fees and expenses of experts, agents, consultants and counsel), or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of this Agreement, any other Loan Document, or any other document contemplated by this Agreement or any other Loan Document or any action taken or omitted by the Administrative Agent under this Agreement, any other Loan Document, or any other document contemplated by this Agreement, except that no Lender shall be liable to the Administrative Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting from the gross negligence or willful misconduct of the Administrative Agent as determined by a final, non-appealable judicial order of a court having jurisdiction over the subject matter.

Section 9.11 Credit Decision. Each Lender represents and warrants to each other and to the Administrative Agent that:

(a) In making its decision to enter into this Agreement and to make its portion of the Loans, it has independently taken whatever steps it considers necessary to evaluate the financial condition and affairs of the Borrower, that it has made an independent credit judgment, and that it has not relied upon the Administrative Agent or information provided by the Administrative Agent (other than information provided to the Administrative Agent by the Borrower and forwarded by the Administrative Agent to the Lenders); and

(b) So long as any portion of the Loans remains outstanding or such Lender has an obligation to make its portion of Advances hereunder, it will continue to make its own independent evaluation of the financial condition and affairs of the Borrower.

Section 9.12 Successor Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time for cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent which appointment shall, prior to a Default, be subject to the consent of the Borrower, acting reasonably. If (a) no successor Administrative Agent shall have been so appointed by the Required Lenders or (b) if appointed, no successor Administrative Agent shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gave notice of resignation or the Required Lenders removed the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be any Lender or a commercial bank organized under the laws of the United States or any political subdivision thereof which has combined capital and reserves in excess of \$250,000,000.00 and which shall be reasonably acceptable to the Borrower. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges, duties and obligations of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent the provisions of this Article 9 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent. In the event that the Administrative Agent or any of its respective affiliates ceases to be a Lender hereunder, such Person shall resign its agency hereunder.

Section 9.13 Delegation of Duties. The Administrative Agent may execute any of its duties under the Loan Documents by or through agents or attorneys selected by it using reasonable care, and shall be entitled to advice of counsel concerning all matters pertaining to such duties.

Section 9.14 Lead Arranger and Book Manager, Syndication Agent; Documentation Agent. Each of the Lead Arranger and Book Manager, the Syndication Agent and the Documentation Agent in its capacity as Lead Arranger and Book Manager, Syndication Agent and Documentation Agent, respectively, shall have no duties or responsibilities under this Agreement or any other Loan Document.

ARTICLE 10

Change in Circumstances Affecting LIBOR Advances

Section 10.1 LIBOR Basis Determination Inadequate or Unfair. If with respect to any proposed LIBOR Advance for any Interest Period, the Administrative Agent determines after consultation with the Lenders that deposits in dollars (in the applicable amount) are not being offered to each of the Lenders in the relevant market for such Interest Period, the Administrative

Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such situation no longer exist, the obligations of any affected Lender to make its portion of such LIBOR Advances shall be suspended.

Section 10.2 Illegality. If after the date hereof, the adoption of any Applicable Law, or any change in any Applicable Law (whether adopted before or after the Agreement Date), or any change in interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender with any directive (whether or not having the force of law) of any such authority, central bank or comparable agency, shall make it unlawful or impossible for any Lender to make, maintain or fund its portion of LIBOR Advances, such Lender shall so notify the Administrative Agent, and the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower. Before giving any notice to the Administrative Agent pursuant to this Section 10.2, such Lender shall designate a different lending office if such designation will avoid the need for giving such notice and will not, in the sole reasonable judgment of such Lender, be otherwise materially disadvantageous to such Lender. Upon receipt of such notice, notwithstanding anything contained in Article 2 hereof, the Borrower shall repay in full the then outstanding principal amount of such Lender's portion of each affected LIBOR Advance, together with accrued interest thereon, on either (a) the last day of the then current Interest Period applicable to such affected LIBOR Advances if such Lender may lawfully continue to maintain and fund its portion of such LIBOR Advance to such day or (b) immediately if such Lender may not lawfully continue to fund and maintain its portion of such affected LIBOR Advances to such day. Concurrently with repaying such portion of each affected LIBOR Advance, the Borrower may borrow a Base Rate Advance from such Lender, whether or not it would have been entitled to effect such borrowing and such Lender shall make such Advance, if so requested, in an amount such that the outstanding principal amount of the affected Note held by such Lender shall equal the outstanding principal amount of such Note or Notes immediately prior to such repayment.

Section 10.3 Increased Costs.

(a) If after the date hereof, the adoption of any Applicable Law, or any change in any Applicable Law (whether adopted before or after the Agreement Date), or any interpretation or change in interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or compliance by any Lender with any directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(1) shall subject any Lender to any tax, duty or other charge with respect to its obligation to make its portion of LIBOR Advances, or its portion of existing Advances, or shall change the basis of taxation of payments to any Lender of the principal of or interest on its portion of LIBOR Advances or in respect of any other amounts due under this Agreement, in respect of its portion of LIBOR Advances or its

obligation to make its portion of LIBOR Advances (except for changes in the rate or method of calculation of tax on the revenues or net income of such Lender); or

(2) shall impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System, but excluding any included in an applicable Eurodollar Reserve Percentage), special deposit, capital adequacy, assessment or other requirement or condition against assets of, deposits with or for the account of, or commitments or credit extended by, any Lender or shall impose on any Lender or the London interbank borrowing market any other condition affecting its obligation to make its portion of such LIBOR Advances or its portion of existing Advances;

and the result of any of the foregoing is to increase the cost to such Lender of making or maintaining any of its portion of LIBOR Advances, or to reduce the amount of any sum received or receivable by such Lender under this Agreement or under its Note with respect thereto, then, within ten (10) days after demand by such Lender, the Borrower agrees to pay to such Lender such additional amount or amounts as will compensate such Lender for such increased costs. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section 10.3 and will designate a different lending office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole reasonable judgment of such Lender made in good faith, be otherwise disadvantageous to such Lender.

(b) Any Lender claiming compensation under this Section 10.3 shall provide the Borrower with a written certificate setting forth the additional amount or amounts to be paid to it hereunder and calculations therefor in reasonable detail. Such certificate shall be presumptively correct absent manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods. If any Lender demands compensation under this Section 10.3, the Borrower may at any time, upon at least five (5) Business Days' prior notice to such Lender, prepay in full such Lender's portion of the then outstanding LIBOR Advances, together with accrued interest thereon to the date of prepayment, along with any reimbursement required under Section 2.10 hereof. Concurrently with prepaying such portion of LIBOR Advances the Borrower may, whether or not then entitled to make such borrowing, borrow a Base Rate Advance, or a LIBOR Advance not so affected, from such Lender, and such Lender shall, if so requested, make such Advance in an amount such that the outstanding principal amount of the affected Note or Notes held by such Lender shall equal the outstanding principal amount of such Note or Notes immediately prior to such prepayment.

Section 10.4 Effect On Other Advances. If notice has been given pursuant to Section 10.1, 10.2 or 10.3 hereof suspending the obligation of any Lender to make its portion of any type of LIBOR Advance, or requiring such Lender's portion of LIBOR Advances to be repaid or prepaid, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such repayment no longer apply, all amounts which would otherwise be made by

such Lender as its portion of LIBOR Advances shall, unless otherwise notified by the Borrower, be made instead as Base Rate Advances.

ARTICLE 11

Miscellaneous

Section 11.1 Notices.

(a) Except as otherwise expressly provided herein, all notices and other communications under this Agreement and the other Loan Documents (unless otherwise specifically stated therein) shall be in writing and shall be deemed to have been given three (3) Business Days after deposit in the mail, designated as certified mail, return receipt requested, postage-prepaid, or one (1) Business Day after being entrusted to a reputable commercial overnight delivery service for next day delivery, or when sent on a Business Day prior to 5:00 p.m. (Atlanta, Georgia time) by telecopy addressed to the party to which such notice is directed at its address determined as provided in this Section 11.1. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

(i) If to the Borrower, to it at:

Gray Communications Systems, Inc.
4370 Peachtree Road, N.E.
Atlanta, Georgia 30319
Attention: James C. Ryan
Telecopy: (404) 261-9607

with a copy to:

Heyman & Sizemore
2300 International Tower
229 Peachtree Street, N.E.
Atlanta, Georgia 30303
Attention: Neal H. Ray, Esq.
Telecopy: (404) 521-2838

(ii) If to the Administrative Agent, to it at:

Bank of America, N.A.
 Agency Services
 NC1-001-15-04
 Independence Center
 101 North Tryon Street
 Charlotte, North Carolina 28255
 Attention: Angela Berry
 Telecopy: (704) 386-9923

with a copy to:

Bank of America, N.A.
 Financial Strategies Group
 600 Peachtree Street, N.E., 19th Floor
 Atlanta, Georgia 30308
 Attention: Scott Reed and David Jackson
 Telecopy: (404) 607-6343 (Reed)
 (404) 607-6323 (Jackson)

and with a copy to:

Powell, Goldstein, Frazer & Murphy LLP
 Sixteenth Floor
 191 Peachtree Street, N.E.
 Atlanta, Georgia 30303
 Attn: Cindy A. Brazell, Esq.
 Telecopy: (404) 572-6999

(iii) If to the Lenders, to them at the addresses set forth on Schedule 1 hereto.

The failure to provide copies shall not affect the validity of the notice given to the primary recipient.

(b) Any party hereto may change the address to which notices shall be directed under this Section 11.1 by giving ten (10) days' written notice of such change to the other parties.

Section 11.2 Expenses. The Borrower will promptly pay, or reimburse:

(a) all reasonable out-of-pocket expenses of the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Loan Documents, and the transactions contemplated hereunder and thereunder and the

making of the initial Advance hereunder (whether or not such Advance is made), including, but not limited to, the reasonable fees and disbursements of Powell, Goldstein, Frazer & Murphy LLP, special counsel for the Administrative Agent; and

(b) all reasonable out-of-pocket costs and expenses of the Administrative Agent and the Lenders of enforcement under this Agreement or the other Loan Documents and all reasonable out-of-pocket costs and expenses of collection if an Event of Default occurs in the payment of the Notes, which in each case shall include reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent and the Lenders.

Section 11.3 Waivers. The rights and remedies of the Administrative Agent and the Lenders under this Agreement and the other Loan Documents shall be cumulative and not exclusive of any rights or remedies which they would otherwise have. No failure or delay by the Administrative Agent, the Required Lenders, or the Lenders, or any of them, in exercising any right, shall operate as a waiver of such right. The Administrative Agent and the Lenders expressly reserve the right to require strict compliance with the terms of this Agreement in connection with any future funding of a Request for Advance. In the event the Lenders decide to fund a Request for Advance at a time when the Borrower is not in strict compliance with the terms of this Agreement, such decision by the Lenders shall not be deemed to constitute an undertaking by the Lenders to fund any further Request for Advance or preclude the Lenders or the Administrative Agent from exercising any rights available under the Loan Documents or at law or equity. Any waiver or indulgence granted by the Administrative Agent, the Lenders, or the Required Lenders, shall not constitute a modification of this Agreement or any other Loan Document, except to the extent expressly provided in such waiver or indulgence, or constitute a course of dealing at variance with the terms of this Agreement or any other Loan Document such as to require further notice of their intent to require strict adherence to the terms of this Agreement or any other Loan Document in the future.

Section 11.4 Set-Off. In addition to any rights now or hereafter granted under Applicable Law and not by way of limitation of any such rights, upon the occurrence of an Event of Default and during the continuation thereof, the Administrative Agent and each of the Lenders are hereby authorized by the Borrower at any time or from time to time, without notice to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, time or demand, including, but not limited to, Indebtedness evidenced by certificates of deposit, in each case whether matured or unmatured) and any other Indebtedness at any time held or owing by any Lender or Administrative Agent, to or for the credit or the account of the Borrower or any of its Subsidiaries, against and on account of the obligations and liabilities of the Borrower to the Lenders and the Administrative Agent, including, without limitation, all Obligations and any other claims of any nature or description arising out of or connected with this Agreement, the Notes or any other Loan Document, irrespective of whether (a) any Lender or Administrative Agent shall have made any demand hereunder or (b) any Lender or Administrative Agent shall have declared the principal of and interest on the Loans and other amounts due hereunder to be due and payable as permitted by Section 8.2 hereof and although such obligations and liabilities or any of them shall be contingent or unmatured. Upon direction by the Administrative Agent

with the consent of all of the Lenders each Lender holding deposits of the Borrower or any of its Subsidiaries shall exercise its set-off rights as so directed.

Section 11.5 Assignment.

(a) The Borrower may not assign or transfer any of its rights or obligations hereunder, under the Notes or under any other Loan Document without the prior written consent of each Lender.

(b) Each Lender may sell (i) assignments of any amount of its interest hereunder to any other Lender, or (ii) assignments or participations of up to one hundred percent (100%) of its interest hereunder to (A) one or more wholly-owned Affiliates of such Lender (provided that, if such Affiliate is not a financial institution, such Lender shall be obligated to repurchase such assignment if such Affiliate is unable to honor its obligations hereunder) or to an Approved Fund, or (B) any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that no such assignment shall relieve such Lender of its rights and obligations hereunder, or (C) in the case of any Lender that is a fund that invests in bank loans, such Lender may assign or pledge all or any portion of its Loans and Notes to any trustee for, or any other representative of, holders of obligations owed or securities issued, by such fund, as security for such obligations or securities; provided that any foreclosure or similar action by such trustee or representatives shall be subject to the provisions of this Section 11.5(b) concerning assignments; and provided, that a copy of any such assignment or participation is provided to the Administrative Agent prior to, or simultaneous with, the effectiveness thereof.

(c) Each of the Lenders may at any time enter into assignment agreements or participations with one or more other banks or other Persons pursuant to which each Lender may assign or participate its interest under this Agreement and the other Loan Documents, including, its interest in any particular Advance or portion thereof, provided, that (1) all assignments (other than assignments described in clause (b) hereof) shall be in minimum principal amounts of the lesser of (x) the entire remaining amount of such Lender's Loans and Commitments, (y) \$1,000,000.00 and (z) such other amount as may be agreed to in writing by the Administrative Agent and Borrower, and (2) all assignments (other than assignments described in clause (b) hereof) and participations hereunder shall be subject to the following additional terms and conditions:

(i) No assignment (except assignments permitted in Section 11.5(b) hereof) shall be sold without the prior consent of the Administrative Agent and prior to the occurrence and continuation of an Event of Default, the consent of the Borrower, which consents shall not be unreasonably withheld or delayed;

(ii) Any Person purchasing a participation or an assignment of any portion of the Loans from any Lender shall be required to represent and warrant that its purchase shall not constitute a "prohibited transaction" (as defined in Section 4.1(m) hereof);

(iii) The Borrower, the Lenders, and the Administrative Agent agree that assignments permitted hereunder (including the assignment of any Advance or portion thereof) may be made with all voting rights, and shall be made pursuant to an Assignment and Assumption Agreement. An administrative fee of \$3,500.00 shall be payable to the Administrative Agent by the assigning Lender at the time of any assignment under this Section 11.5(c);

(iv) No participation agreement shall confer any rights under this Agreement or any other Loan Document to any purchaser thereof, or relieve any issuing Lender from any of its obligations under this Agreement, and all actions hereunder shall be conducted as if no such participation had been granted; provided, however, that any participation agreement may confer on the participant the right to approve or disapprove decreases in the interest rate, increases in the principal amount of the Loans participated in by such participant, decreases in fees, extensions of the Revolving Loan Maturity Date, the Term Loan A Maturity Date or the Term Loan B Maturity Date, as applicable, or other principal payment date for the Loans or of the scheduled reduction of the Revolving Loan Commitment and releases of Collateral;

(v) Each Lender agrees to provide the Administrative Agent and the Borrower with prompt written notice of any issuance of participations in or assignments of its interests hereunder;

(vi) No assignment, participation or other transfer of any rights hereunder or under the Notes shall be effected that would result in any interest requiring registration under the Securities Act of 1933, as amended, or qualification under any state securities law;

(vii) No such assignment may be made to (A) any bank or other financial institution (excluding funds) unless (1) such bank or other financial institution either (x) has a minimum capital and surplus of \$500,000,000.00, or (y) is "adequately capitalized" (as such term is defined in 12 USCA Section 1831(b)(1)(B) as in effect on the Agreement Date) and (2) a receiver or conservator (including, without limitation, the Federal Deposit Insurance Corporation, the Resolution Trust Company or the Office of Thrift Supervision) has not been appointed with respect to such bank or other financial institution, (B) any fund unless such fund either (1) invests in commercial loans or (2) has total assets in excess of \$125,000,000.00, or (C) any other Person unless such Person either (1) is an "accredited investor" (as defined in Regulation D of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder) or (2) has total assets in excess of \$100,000,000.00;

(viii) If applicable, each Lender shall, and shall cause each of its assignees to, provide to the Administrative Agent on or prior to the effective date of any assignment an appropriate Internal Revenue Service form as required by Applicable Law supporting such Lender's or assignee's position that no withholding by the Borrower or

the Administrative Agent for United States income tax payable by such Bank or assignee in respect of amounts received by it hereunder is required. For purposes of this Agreement, an appropriate Internal Revenue Service form shall mean Form 1001 (Ownership Exemption or Reduced Rate Certificate of the United States Department of Treasury), or Form 4224 (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States), or any successor or related forms adopted by the relevant United States taxing authorities; and

(ix) Any Lender making an assignment of its rights and obligations under the Revolving Loan Commitment shall also make an assignment of an equal percentage of its outstanding Revolving Loans.

(d) Except as specifically set forth in Section 11.5(b) or (c) hereof, nothing in this Agreement or the Notes, expressed or implied, is intended to or shall confer on any Person other than the respective parties hereto and thereto and their successors and assignees permitted hereunder and thereunder any benefit or any legal or equitable right, remedy or other claim under this Agreement or the Notes.

(e) In the case of any participation, all amounts payable by the Borrower under the Loan Documents shall be calculated and made in the manner and to the parties hereto as if no such participation had been sold.

(f) The provisions of this Section 11.5 shall not apply to any purchase of participations among the Lenders pursuant to Section 2.11 hereof.

(g) The Administrative Agent, acting, for this purpose only, as agent of the Borrower shall maintain, at no extra charge or cost to the Borrower, a register (the "Register") at the address to which notices to the Administrative Agent are to be sent under Section 11.1 hereof on which Register the Administrative Agent shall enter the name, address and taxpayer identification number (if provided) of the registered owner of the Loans evidenced by a Registered Note or, upon the request of the registered owner, for which a Registered Note has been requested. A Registered Note and the Loans evidenced thereby may be assigned or otherwise transferred in whole or in part only by registration of such assignment or transfer of such Registered Note and the Loans evidenced thereby on the Register. Any assignment or transfer of all or part of such Loans and the Registered Note evidencing the same shall be registered on the Register only upon compliance with the other provisions of this Section 11.5 and surrender for registration of assignment or transfer of the Registered Note evidencing such Loans, duly endorsed by (or accompanied by a written instrument of assignment or transfer duly executed by) the Registered Noteholder thereof, and thereupon one or more new Registered Notes in the same aggregate principal amount shall be issued to the designated assignee(s) or transferee(s) and, if less than the aggregate principal amount of such Registered Notes is thereby transferred, the assignor or transferor. Prior to the due presentment for registration of transfer of any Registered Note, the Borrower and the Administrative Agent shall treat the Person in whose name such Loans and the Registered Note evidencing the same is registered as the owner thereof

for the purpose of receiving all payments thereon and for all other purposes, notwithstanding any notice to the contrary.

Section 11.6 Accounting Principles. All references in this Agreement to GAAP shall be to such principles as in effect from time to time. All accounting terms used herein without definition shall be used as defined under GAAP. All references to the financial statements of the Borrower and to its Total Debt, Senior Debt and Fixed Charges, and other such terms shall be deemed to refer to such items of the Borrower and its Subsidiaries, on a fully consolidated basis.

Section 11.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such separate counterparts shall together constitute but one and the same instrument.

Section 11.8 Governing Law. This Agreement and the Notes shall be construed in accordance with and governed by the internal laws of the State of Georgia applicable to agreements made and to be performed in Georgia. If any action or proceeding shall be brought by the Administrative Agent or any Lender hereunder or under any other Loan Document in order to enforce any right or remedy under this Agreement or under any Note or any other Loan Document, the Borrower hereby consents and will, and the Borrower will cause each Subsidiary to, submit to the jurisdiction of any state or federal court of competent jurisdiction sitting within the area comprising the Northern District of Georgia on the date of this Agreement. The Borrower, for itself and on behalf of its Subsidiaries, hereby agrees that, to the extent permitted by Applicable Law, service of the summons and complaint and all other process which may be served in any such suit, action or proceeding may be effected by mailing by registered mail a copy of such process to the offices of the Borrower at the address given in Section 11.1 hereof and that personal service of process shall not be required. Nothing herein shall be construed to prohibit service of process by any other method permitted by law, or the bringing of any suit, action or proceeding in any other jurisdiction. The Borrower agrees that final judgment in such suit, action or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment or in any other manner provided by Applicable Law.

Section 11.9 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof in that jurisdiction or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 11.10 Interest.

(a) In no event shall the amount of interest due or payable hereunder or under the Notes exceed the maximum rate of interest allowed by Applicable Law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Administrative Agent or any Lender, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Administrative Agent or such Lender, in writing, that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Administrative Agent and the Lenders not receive, directly or

indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under Applicable Law.

(b) Notwithstanding the use by the Lenders of the Base Rate and the LIBOR as reference rates for the determination of interest on the Loans, the Lenders shall be under no obligation to obtain funds from any particular source in order to charge interest to the Borrower at interest rates related to such reference rates.

Section 11.11 Table of Contents and Headings. The Table of Contents and the headings of the various subdivisions used in this Agreement are for convenience only and shall not in any way modify or amend any of the terms or provisions hereof, nor be used in connection with the interpretation of any provision hereof.

Section 11.12 Amendment and Waiver. Any term of this Agreement or of the Notes may be amended and the observance of any term of this Agreement or of the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Borrower and the Required Lenders or, if there are only two (2) Lenders each of which has a Commitment Ratio of eighty percent (80%) or less of the Loans, with the written consent of the Borrower and both Lenders; provided, however, that no such amendment or waiver or other action shall, without the prior written consent of all of the Lenders or the holders of all of the Notes at the time outstanding, (a) extend the maturity or reduce the principal amount of, or reduce the rate or extend the time of payment of interest on, or reduce the amount or extend the time of payment of any principal installment of, any Note, (b) reduce the amount or extend the time of payment of the commitment fees, (c) change the Commitments or the Commitment Ratio of any Lender (other than any change in Commitments or Commitment Ratio resulting from the sale of a participation in or assignment of any Lender's interest in the Commitments and Loans in accordance with subsection 11.5 or resulting from an increase in Commitments pursuant to Section 2.16 of the Prior Loan Agreement, which appears in this Agreement as the Term B Loan Commitment), (d) change the percentage referred to in the definition of "Required Lenders" or reduce the number of Lenders required to approve any waiver, amendment or modification, (e) amend this Section 11.12, (f) amend or waive compliance with Section 2.7(b), (g) release any collateral or any guaranty for the Loans except in connection with a sale permitted pursuant to Section 7.4, (h) amend or waive any of the conditions precedent set forth in Section 3 for the making of the initial Loans on the Closing Date, or (i) extend the expiration date of any outstanding Letter of Credit or postpone the reimbursement obligations of the Borrower in respect of any Letter of Credit or reduce the fees payable by the Borrower in respect of any Letter of Credit; and provided, further, however, that notwithstanding the foregoing provisions of this Section 11.12, this Agreement and the Notes may be amended or modified in the manner contemplated by Section 11.5 for the purpose of permitting any Lender to assign its interest, rights and obligations hereunder to another Person if the appropriate assignment agreement or counterparts thereof are executed by the Borrower (to the extent required), the Administrative Agent and the appropriate Lender assignor and assignee. Any amendment or waiver effected in accordance with this Section 11.12 shall be binding upon each holder of any Note at the time outstanding, each future holder of any Note and the Borrower.

Section 11.13 Entire Agreement. Except as otherwise expressly provided herein, this Agreement and the other documents described or contemplated herein will embody the entire agreement and understanding among the parties hereto and thereto and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

Section 11.14 Other Relationships. No relationship created hereunder or under any other Loan Document shall in any way affect the ability of the Administrative Agent and each Lender to enter into or maintain business relationships with the Borrower or any of its Affiliates beyond the relationships specifically contemplated by this Agreement and the other Loan Documents.

Section 11.15 Directly or Indirectly. If any provision in this Agreement refers to any action taken or to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, whether or not expressly specified in such provision.

Section 11.16 Reliance on and Survival of Various Provisions. All covenants, agreements, statements, representations and warranties made herein or in any certificate delivered pursuant hereto (i) shall be deemed to have been relied upon by the Administrative Agent and each of the Lenders notwithstanding any investigation heretofore or hereafter made by them, and (ii) shall survive the execution and delivery of the Notes and shall continue in full force and effect so long as any Note is outstanding and unpaid. Any right to indemnification hereunder, including, without limitation, rights pursuant to Sections 2.10, 2.12, 2.14, 5.11, 10.3 and 11.2 hereof, shall survive the termination of this Agreement and the payment and performance of all Obligations.

Section 11.17 Senior Debt. The Obligations are secured by the Security Documents and are intended by the parties hereto to be in parity with the Interest Rate Hedge Agreements and senior in right of payment to all other Indebtedness of the Borrower.

Section 11.18 Obligations Several. The obligations of the Administrative Agent and each of the Lenders hereunder are several, not joint.

ARTICLE 12

Waiver of Jury Trial

Section 12.1 Waiver of Jury Trial. THE BORROWER, FOR ITSELF AND ON BEHALF OF EACH OF ITS SUBSIDIARIES AND THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY AGREE, TO THE EXTENT PERMITTED BY LAW, TO WAIVE AND HEREBY WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY COURT AND IN ANY ACTION OR PROCEEDING OF ANY TYPE IN WHICH THE BORROWER, ANY OF THE BORROWER'S SUBSIDIARIES, ANY OF THE LENDERS, THE ADMINISTRATIVE AGENT OR ANY OF THEIR RESPECTIVE SUCCESSORS OR ASSIGNS IS A PARTY, AS

TO ALL MATTERS AND THINGS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS AGREEMENT, ANY OF THE NOTES OR THE OTHER LOAN DOCUMENTS AND THE RELATIONS AMONG THE PARTIES LISTED IN THIS SECTION 12.1. EXCEPT AS PROHIBITED BY LAW, EACH PARTY TO THIS AGREEMENT WAIVES ANY RIGHTS IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION REFERRED TO IN THIS SECTION, ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH PARTY TO THIS AGREEMENT (i) CERTIFIES THAT NEITHER ANY REPRESENTATIVE, AGENT OR ATTORNEY OF THE ADMINISTRATIVE AGENT OR ANY LENDER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE ADMINISTRATIVE AGENT OR ANY LENDER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (ii) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCLOSED BY AND TO THE PARTIES AND THE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTIONS. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement or caused it to be executed by their duly authorized officers, all as of the day and year first above written.

BORROWER: GRAY COMMUNICATIONS SYSTEMS, INC.

By: /s/ JAMES C. RYAN

Name: JAMES C. RYAN

Title: V.P. - C.F.O.

ADMINISTRATIVE AGENT,
DOCUMENTATION AGENT,
SYNDICATION AGENT
AND LENDERS: BANK OF AMERICA, N.A., as Administrative Agent and as a Lender

By: /s/ DAVID B. JACKSON

Name: DAVID B. JACKSON

Title: SENIOR VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 1

KEY CORPORATE CAPITAL INC., as Documentation
Agent and as a Lender

By: /s/ KENNETH J. KEELER

Name: KENNETH J. KEELER

Title: SENIOR VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 2

FIRST UNION NATIONAL BANK, as Syndication
Agent and as a Lender

By: /s/ JEFFREY M. GRACI

Name: JEFFREY M. GRACI

Title: VICE PRESIDENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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BANK AUSTRIA CREDITANSTALT CORPORATE
FINANCE, INC., as a Lender

By: /s/ CARL G. DRAKE

Name: CARL G. DRAKE

Title: VICE PRESIDENT

By: /s/ WILLIAM E. McCOLLUM, JR.

Name: WILLIAM E. McCOLLUM, JR.

Title: SR. ASSOCIATE

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 4

THE BANK OF NEW YORK COMPANY, INC., as a
Lender

By: /s/ EDWARD F. RYAN, JR.

Name: EDWARD F. RYAN, JR.

Title: SENIOR VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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THE BANK OF NOVA SCOTIA, as a Lender

By: /s/ VINCENT J. FITZGERALD, JR.

Name: VINCENT J. FITZGERALD, JR.

Title: AUTHORIZED SIGNATORY

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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THE BANK OF TOKYO-MITSUBISHI TRUST COMPANY,
as a Lender

By: /s/ GLENN B. ECKERT

Name: GLENN B. ECKERT

Title: VICE PRESIDENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 7

CANADIAN IMPERIAL BANK OF COMMERCE, as a
Lender

By: /s/ MICHELE E. ROLLER

Name: MICHELE E. ROLLER

Title: EXECUTIVE DIRECTOR
CIBC WORLD MARKETS CORP.
AS AGENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 8

THE CIT GROUP/EQUIPMENT FINANCING, INC., as
a Lender

By: /s/ J.E. PALMER

Name: J.E. PALMER

Title: ASSISTANT VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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COOPERATIEVE CENTRALE
RAIFFEINSEN-BOERENLEENBANK B.A., "RABOBANK
NEDERLAND", NEW YORK BRANCH, as a Lender

By: /s/ MICHIEL V.M. VAN DER VOORT

Name: MICHIEL V.M. VAN DER VOORT

Title: VICE PRESIDENT

By: /s/ PIETER KODDE

Name: PIETER KODDE

Title: SENIOR VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 10

FREMONT INVESTMENT & LOAN, as a Lender

By: /s/ KANNIKA VIRAVAN

Name: KANNIKA VIRAVAN

Title: VICE PRESIDENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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HELLER FINANCIAL, INC., as a Lender

By: /s/ ROBERT M. REEG

Name: ROBERT M. REEG

Title: ASST. VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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MERRILL LYNCH SENIOR FLOATING RATE FUND II,
INC., as a Lender

By: /S/ JOSEPH MATTEO

Name: JOSEPH MATTEO

Title: AUTHORIZE SIGNATORY

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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MORGAN STANLEY DEAN WITTER PRIME INCOME
TRUST, as a Lender

By: /S/ PETER GEWIRTZ

Name: PETER GEWIRTZ

Title: AUTHORIZED SIGNATORY

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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PPM SPYGLASS FUNDING TRUST, as a Lender

By: /s/ KELLY C. WALKER

Name: KELLY C. WALKER

Title: AUTHORIZED AGENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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SUNTRUST BANK, CENTRAL FLORIDA, N.A., as a
Lender

By: /s/ W. DAVID WISDOM

Name: W. DAVID WISDOM

Title: VICE PRESIDENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 18

TORONTO DOMINION (TEXAS), INC., as a Lender

By: /s/ ALVA J. JONES

Name: ALVA J. JONES

Title: VICE PRESIDENT

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
Signature Page 19

WACHOVIA BANK, N.A., as a Lender

By: /s/ TERA C. COX

Name: TERA C. COX

Title: ASSISTANT VICE PRES.

GRAY COMMUNICATIONS SYSTEMS, INC.
SECOND AMENDED AND RESTATED LOAN AGREEMENT
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GRAY COMMUNICATIONS SYSTEMS, INC.
4370 PEACHTREE ROAD, N.E.
ATLANTA, GEORGIA 30319

YOUR VOTE IS VERY IMPORTANT

At the annual meeting, shareholders will consider and vote upon a proposal relating to the approval of the issuance of shares of Gray's class B common stock in connection with the proposed acquisition by Gray of three television stations. Gray class B common stock is listed on The New York Stock Exchange under the symbol "GCS.B."

At the annual meeting, shareholders will also elect directors and consider and vote upon proposals to amend the 1992 Long Term Incentive Plan to increase the number of shares issuable thereunder and confirm the appointment of the independent auditors and consider and act upon such other business as may properly come before the meeting.

This proxy statement/prospectus provides shareholders with detailed information about the matters to be considered at the annual meeting. Shareholders are encouraged to read this entire document carefully.

The board of directors believes that the matters to be presented at the annual meeting are in the best interests of Gray and its shareholders. Therefore, the board of directors urges shareholders to vote in favor of each of the proposals to be presented at the annual meeting.

J. Mack Robinson
President and Chief Executive
Officer

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 8 OF THIS PROXY STATEMENT/ PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATOR HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED UNDER THIS PROXY STATEMENT/PROSPECTUS OR DETERMINED IF THIS PROXY STATEMENT/PROSPECTUS IS ACCURATE OR ADEQUATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. A REGISTRATION STATEMENT RELATING TO THE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY SECURITIES IN ANY STATE WHERE OFFERS OR SALES ARE NOT PERMITTED.

PROXY STATEMENT/PROSPECTUS DATED AUGUST 16, 1999
AND FIRST MAILED TO SHAREHOLDERS ON OR ABOUT AUGUST 23, 1999

GRAY COMMUNICATIONS SYSTEMS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Time: 9:30 a.m., local time

Date: September 23, 1999

Place: The Peachtree Insurance Center
The Executive Board Room, 5th Floor
4370 Peachtree Road, N.E.
Atlanta, Georgia 30319

Purpose:

- to consider and vote upon a proposal to approve the issuance of shares of Gray class B common stock in connection with certain proposed acquisitions;
- to elect nine directors;
- to consider and vote upon a proposal to approve the amendment of the 1992 Long Term Incentive Plan to increase the number of shares of Gray class B common stock issuable thereunder;
- to consider and vote upon a proposal to confirm the appointment of Ernst & Young LLP as the independent auditors; and
- to consider and act upon such other business and matters or proposals as may properly come before the meeting.

The board of directors has fixed the close of business on August 13, 1999 as the record date for determining the holders of Gray class A common stock and class B common stock having the right to receive notice of, and to vote at, the meeting. Only holders of record of Gray class A common stock and class B common stock at the close of business on such date are entitled to notice of, and to vote at, the meeting.

Your vote is very important. We encourage you to vote as soon as possible by one of three convenient methods: by calling the toll-free number listed on the form of proxy, by accessing the Internet site listed on the form of proxy or by signing, dating and returning the form of proxy in the enclosed postage-paid envelope.

By Order of the Board of Directors,
J. Mack Robinson
President and Chief Executive
Officer

Atlanta, Georgia
August 23, 1999

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Appendix A	Agreement and Plan of Merger, dated as of April 13, 1999, by and among Gray Communications Systems, Inc., Gray Communications of Texas, Inc. and KWTX Broadcasting Company
Appendix B	Agreement and Plan of Merger, dated as of April 13, 1999, by and among Gray Communications Systems, Inc., Gray Communications of Texas, Inc. and Brazos Broadcasting Co.
Appendix C	Asset Purchase Agreement, dated as of April 26, 1999, by and among Gray Communications Systems, Inc., Gray Communications of Texas-Sherman, Inc., KXII Licensee Corp., KXII Broadcasters, Ltd., KXII Television, Ltd., K-Twelve, Ltd., KBI 1, Inc., KBI 2, Inc., KXII Properties, Inc., and the Shareholders of KXII Properties, Inc.

SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To understand better the matters to be considered at the shareholders meeting and for a more complete description of the legal terms of the proposed acquisitions and related transactions, you should read carefully this entire document and the documents to which you are referred. See "Where To Find Additional Information" on page 109.

SHAREHOLDERS MEETING (SEE PAGE 10)

The annual meeting of shareholders of Gray will be held at 9:30 a.m., local time, on September 23, 1999, at The Peachtree Insurance Center, The Executive Board Room, 5th Floor, 4370 Peachtree Rd., N.E., Atlanta, Georgia 30319. At the meeting, holders of Gray class A common stock and class B common stock will consider and vote upon:

- a proposal to approve the issuance of shares of Gray class B common stock in connection with certain proposed acquisitions (see page 12);
- the election of directors (see page 84);
- a proposal to amend the 1992 Long Term Incentive Plan to increase by 1,000,000 shares the number of shares of Gray class B common stock issuable thereunder (see page 102);
- a proposal to confirm the appointment of Ernst & Young LLP as the independent auditors (see page 108); and
- any other matters that may properly come before the meeting.

VOTES REQUIRED AND RECOMMENDATION OF THE BOARD OF DIRECTORS

Approval of the issuance of shares of Gray class B common stock in connection with the proposed acquisitions, the amendment of the 1992 Long Term Incentive Plan and the confirmation of Ernst & Young LLP as the independent auditors requires the affirmative vote of the holders of a majority of the votes represented by the shares of Gray class A common stock and class B common stock, voting together as a single class, present in person or represented by proxy at the meeting and entitled to vote on the proposal. Election of directors requires a plurality of votes cast by holders of shares of Gray class A common stock and class B common stock, voting together as a single class. Gray's board of directors believes that the foregoing proposals are in the best interests of its shareholders and recommends that shareholders vote "FOR" each of these proposals and "FOR" the election of those directors specified in this proxy statement/prospectus.

THE PROPOSED ACQUISITIONS

The agreements relating to Gray's proposed acquisitions are attached as Appendices A, B and C to this proxy statement/prospectus. Shareholders should read these agreements, because they are the legal documents which govern these acquisitions.

SUMMARY OF THE ACQUISITIONS

Gray is a party to two merger agreements and an asset purchase agreement that provide for the acquisition by Gray of three network-affiliated television stations in Texas for a combination of cash and Gray class B common stock.

THE PARTIES TO THE ACQUISITION AGREEMENTS

Gray Communications Systems, Inc.
4370 Peachtree Road, N.E.
Atlanta, Georgia 30319
(404) 504-9828

Gray Communications Systems, Inc. operates 10 television stations located in the Southeast and Midwest; three of which are NBC affiliates and seven of which are CBS affiliates; four daily newspapers (one in Albany, Georgia, two in suburban Atlanta, Georgia, and one in Goshen, Indiana); a weekly advertising shopper in southwest Georgia; a communications and paging business in the Southeast and one of the largest fleets of satellite uplink trucks in the Southeast.

KWTX Broadcasting Company
200 West Highway 6
Suite 210
Waco, Texas 76712

KWTX operates television station KWTX, a CBS affiliate located in Waco, Texas, which is part of the Waco-Temple-Bryan television market, the 95th largest television market in the United States.

Brazos Broadcasting Co.
200 West Highway 6
Suite 210
Waco, Texas 76712

Brazos operates television station KBTX, a CBS affiliated satellite station of KWTX located in Bryan, Texas, which is part of the Waco-Temple-Bryan television market, the 95th largest television market in the United States. As a satellite station, KBTX rebroadcasts substantial amounts of network and syndicated programming from its parent station, KWTX.

KXII Broadcasters, Ltd. and affiliates
4201 Texoma Parkway
Sherman, Texas 75090

KXII operates television station KXII, a CBS affiliate located in Sherman, Texas, which is part of the Sherman, Texas-Ada, Oklahoma television market, the 161st largest television market in the United States.

CONSIDERATION TO BE PAID BY GRAY IN THE KWTX AND BRAZOS ACQUISITIONS (SEE PAGE 16)

The KWTX acquisition agreement provides that the KWTX shareholders will receive in exchange for each share of KWTX stock each shareholder holds: cash and Gray class B common stock equal to the sum of (1) \$74,680,000, (2) the amount by which the current assets and certain other assets of KWTX exceed its current liabilities and (3) 50% of the amount by which the current assets and certain other assets of Brazos exceed its current liabilities divided by (4) 1,550 (the number of outstanding shares of KWTX common stock). In general and subject to the election of Gray to pay all of the acquisition consideration in cash and the limitations discussed below, each holder will have the right to elect the percentage of the consideration to be received in cash and the percentage to be received in Gray class B common stock, provided that each KWTX shareholder must take at least 40% of the total consideration in stock.

The Brazos acquisition agreement provides that the Brazos shareholders (other than KWTX) will receive in exchange for each share of Brazos stock each shareholder holds: cash and Gray class B common stock equal to the sum of (1) \$22,820,000 and (2) 50% of the amount by which the current assets and certain other assets of Brazos exceed its current liabilities divided by (3) 250 (the number of outstanding shares of Brazos common stock not held by KWTX). In general and subject to the election of Gray to pay all of the acquisition consideration in cash and the limitations discussed below, each holder will have the right to elect the percentage of the consideration to be received in cash and the percentage to be received in Gray class B common stock, provided that each Brazos shareholder must take at least 40% of the total consideration in stock.

The KWTX and Brazos acquisition agreements provide that the number of shares of Gray class B common stock to be issued as merger consideration will be determined by dividing the amount of the merger consideration to be paid in Gray class B common stock by its average closing price on The New York Stock Exchange for the 20 consecutive trading days immediately preceding the closing date, except that:

- if the average price, as so determined, is less than \$14 per share, Gray class B common stock will be valued at \$14 per share, and if the average price is greater than \$15 per share, Gray class B common stock will be valued at \$15 per share;
- notwithstanding the average per share price of Gray class B common stock during the 20 trading day period immediately preceding the closing date, if the price of Gray class B common stock on the day immediately preceding the closing date is less than \$14 per share, the number of shares of Gray class B common stock to be issued will be increased, so that each shareholder of KWTX and Brazos will receive at least 40% of the consideration in Gray class B common stock, valued as of the trading day immediately preceding the closing date, and the remainder in cash; and
- if (1) the average per share price of Gray class B common stock during the 20 trading day period immediately preceding the closing date is less than \$10 or (2) the price per share on the day immediately preceding the closing date is less than \$10, the acquisition agreements provide that Gray may extend the closing date to obtain its shareholders' approval of the issuance of such number of shares of Gray class B common stock as may be required under the agreements so that each of the KWTX and Brazos shareholders will receive at least 40% of the merger consideration in Gray class B common stock.

If the average per share price of Gray class B common stock during the 20 trading day period immediately preceding the closing date of the KWTX and Brazos acquisitions or the price of Gray class B common stock on the closing date is less than \$12 per share, Gray may pay all of the acquisition consideration for KWTX and Brazos in cash, in which event the total acquisition price will be reduced by \$1,530,000 in the case of KWTX and \$470,000 in the case of Brazos.

CONSIDERATION TO BE PAID BY GRAY IN THE KXII ACQUISITION (SEE PAGE 16)

The KXII acquisition agreement provides that Gray will pay the sellers cash equal to the sum of (1) \$41,500,000 and (2) the value of all accounts receivable, notes receivable and other monies due to KXII for sales and deliveries of goods, performance of services and other business transactions on the date of the acquisition, reduced by: (a) an amount equal to two percent of such value and (b) all reserves for doubtful accounts or similar reserves. Gray will also assume specified liabilities of KXII. At June 30, 1999, such liabilities were \$259,000.

CONDITIONS TO THE OBLIGATION OF THE PARTIES TO COMPLETE THE ACQUISITIONS (SEE PAGE 17)

The obligation of each party to complete the acquisitions depends upon the satisfaction or waiver of a number of conditions relating to the correctness of the representations and warranties of the parties, the absence of a material adverse change with respect to the parties, the receipt of customary opinions and closing documents, and the following material conditions:

- the shares of Gray class B common stock issuable pursuant to the acquisition of KWTX and Brazos shall have been approved for listing on The New York Stock Exchange;
- the shareholders of KWTX and Brazos shall have adopted the acquisition agreements;
- consent of the Federal Communications Commission shall have been granted and become final, without the imposition of any condition adverse to any of the parties;
- all applicable Hart-Scott-Rodino Antitrust Improvements Act waiting periods shall have expired or otherwise terminated;
- there shall not be in effect any order of any court or administrative agency which restrains or prohibits the acquisitions;
- there shall not be pending any action or proceeding by or before any court or administrative agency challenging any of the acquisitions; and
- Gray's registration statement, of which this proxy statement/prospectus is a part, relating to the shares of Gray class B common stock to be issued to shareholders of KWTX and Brazos shall have become effective.

CONDITIONS TO THE OBLIGATION OF GRAY TO COMPLETE THE ACQUISITIONS (SEE PAGE 17)

The obligation of Gray to complete the acquisitions also depends upon the satisfaction or waiver of the following material conditions:

- receipt of environmental audits, satisfactory to Gray, of KWTX's, Brazos' and KXII's real property; and
- receipt of policies of owner's or lessee's title insurance for the real properties to be acquired or leased by Gray.

CIRCUMSTANCES WHERE THE PARTIES CAN TERMINATE THE ACQUISITION AGREEMENTS (SEE PAGE 20)

The acquisition agreements provide that they may be terminated and the acquisitions may be abandoned at any time before the acquisitions have been completed, even if all requisite shareholder approvals have been obtained, under the following circumstances:

- by mutual written consent of the parties;
- by any party if any material representation, warranty, covenant or agreement of another party to the acquisition agreement has been materially breached or is incorrect and such breach is not cured within 10 days of receiving written notice of such breach; or
- if the closing date has not occurred by December 31, 1999, unless the assignment applications jointly filed by the parties are still pending before the FCC on that date, in which case the transactions may not be terminated until May 31, 2000, but after which date they may be terminated by any of the parties.

If the acquisition agreements are terminated, the acquisition agreements provide that they will become void and there will be no liability on the part of any party, except that if termination occurs as a result of a breach or default by Gray, then each of KWTX, Brazos and KXII may retain as liquidated damages \$1,000,000 of Gray's \$3,000,000 deposit being held in escrow.

REGULATORY MATTERS (SEE PAGE 26)

Under the Communications Act of 1934, the acquisitions may not be consummated until the FCC has approved the assignment of the FCC licenses of KWTX, Brazos and KXII to Gray. The FCC's approval has been obtained and has become final without the imposition of an adverse material condition.

Under the Hart-Scott-Rodino Act, the acquisitions may not be consummated until notifications have been given and information has been furnished to the Federal Trade Commission and the Anti-Trust Division of the United States Department of Justice and specified waiting period requirements have expired. On July 23, 1999, Gray, KWTX and Brazos filed the required notification and report forms under the Hart-Scott-Rodino Act with the FTC and the Anti-Trust Division, and the applicable waiting period is scheduled to expire at midnight on August 22, 1999, unless earlier termination is granted. The FTC and the Anti-Trust Division have the authority to challenge the acquisitions on antitrust grounds before or after the acquisitions are completed.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITIONS (SEE PAGE 21)

For federal income tax purposes, the KWTX and Brazos acquisitions have been structured as "reorganizations" under Section 368(a) of the Internal Revenue Code so that the KWTX and Brazos shareholders will not recognize any taxable income with respect to the Gray class B common stock that such shareholders will receive in the acquisitions. Such shareholders, however, will be subject to federal income tax on any gain realized to the extent the acquisition consideration is received in cash. If Gray elects to pay all of the acquisition consideration in cash in accordance with the terms of the acquisition agreements, the KWTX or Brazos shareholders, as the case may be, will be treated as having sold their KWTX stock or Brazos stock to Gray in a taxable sale in which gain or loss will be recognized.

GRAY'S ACCOUNTING TREATMENT OF THE ACQUISITIONS (SEE PAGE 26)

Gray expects to account for the acquisitions of KWTX, Brazos, and KXII using the purchase method of accounting. Generally, under the purchase method of accounting, assets acquired and liabilities assumed are recorded at their fair value.

MARKET PRICE INFORMATION

Gray class B common stock is listed on The New York Stock Exchange. On April 13, 1999, the last trading day before the public announcement of the proposed acquisitions of KWTX, Brazos and KXII, the last reported sales price per share of Gray class B common stock was \$13 9/16. On August 13, 1999, the last trading day before the date of this proxy statement/prospectus, the last reported sales price per share of Gray class B common stock was \$14 3/16. Since the securities of KWTX, Brazos and KXII are not publicly traded, they have no readily ascertainable market value.

UNAUDITED COMPARATIVE PER SHARE DATA

The following summary presents per share information for Gray, KWTX and Brazos on an historical, pro forma combined and pro forma diluted equivalent basis for the periods and as of the dates indicated below. The pro forma information gives effect to the acquisitions using the purchase method of accounting. This information should be read in conjunction with the companies' historical financial statements and related notes and pro forma condensed combined financial data included elsewhere or incorporated by reference in this proxy statement/prospectus. The pro forma information should not be relied upon as being indicative of the historical results that the companies would have had if the acquisitions had occurred before such periods or the future results that the companies will experience after the acquisitions.

The pro forma combined income (loss) per diluted share has been computed based on the diluted number of outstanding shares of Gray, adjusted for the Gray class B common stock to be issued in the acquisitions of KWTX and Brazos. The merger equivalent income (loss) per share of KWTX and Brazos is based on the number of shares of Gray class B common stock into which each share of KWTX and Brazos common stock will be converted in the mergers as follows, KWTX: 1,558 shares; and Brazos: 3,024 shares.

The pro forma merger equivalent dividends per common share of KWTX and Brazos are based on the historical dividends per common share of Gray multiplied by the number

of shares of Gray class B common stock into which each share of KWTX and Brazos common stock will be converted in the acquisitions, as follows, KWTX: 1,558 shares; and Brazos: 3,024 shares.

The pro forma combined book value per share is based upon the pro forma combined equity of Gray, less the liquidation preference of Gray preferred stock, divided by the pro forma number of outstanding shares of Gray class A common stock and class B common stock as of June 30, 1999. The merger equivalent book value per share of KWTX and Brazos is based on the number of shares of Gray class B common stock into which each share of KWTX and Brazos common stock will be converted in the acquisitions, as follows, KWTX: 1,558 shares; and Brazos: 3,024 shares.

The summary assumes that the shares of Gray class B common stock to be issued will have a value of \$14.125 per share, the closing price of the Gray class B common stock on June 30, 1999, and that the shareholders of KWTX and Brazos, as a group, will elect to receive 40% of their consideration in Gray class B common stock and the remainder in cash.

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
	-----	-----
STATEMENT OF OPERATIONS DATA:		
Income (loss) per weighted average diluted share:		
Gray.....	\$ 3.25	\$ (0.26)
KWTX.....	2,142.41	940.34
Brazos.....	4,032.99	1,689.35
Gray pro forma combined.....	2.13	(0.34)
KWTX merger equivalent.....	3,322.57	(523.61)
Brazos merger equivalent.....	6,450.96	(1,016.62)
Dividends per common share:		
Gray.....	\$ 0.06	\$ 0.04
KWTX.....	1,000.00	1,400.00
Brazos.....	2,000.00	3,000.00
Gray pro forma combined.....	0.06	0.04
KWTX merger equivalent.....	93.46	62.32
Brazos merger equivalent.....	181.45	120.96

AS OF
JUNE 30, 1999

BALANCE SHEET DATA:

Net book value per share:

Gray.....	\$ 9.16
KWTX.....	10,700.38
Brazos.....	17,881.62
Gray pro forma combined.....	10.20
KWTX merger equivalent.....	15,883.99
Brazos merger equivalent.....	30,839.64

RISK FACTORS

In addition to the other information contained in this proxy statement/prospectus, shareholders should consider the following risk factors before they decide whether or not to vote in favor of the proposals described in this proxy statement/prospectus.

RISKS RELATING TO GRAY'S CURRENT BUSINESSES

Gray's Leverage May Adversely Affect its Cash Flow, its Ability to Obtain Financing and React to Changes in its Industries. Gray has substantial indebtedness and, upon the completion of the acquisitions, Gray's indebtedness will increase materially. If the average per share price of Gray class B common stock during the 20 day trading period immediately preceding the closing date is below \$12 per share, the acquisition agreements provide that Gray may elect to pay all of the acquisition consideration for KWTX and Brazos in cash, in which case, Gray's indebtedness would significantly increase further. Gray may incur substantial indebtedness in the future, including acquisition-related indebtedness. The degree to which Gray will be leveraged may have important consequences to holders of Gray stock, including the following:

- Gray's ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes may be impaired;
- a substantial portion of Gray's cash flow must be dedicated to the payment of principal and interest on its indebtedness and to the payment of dividends on its preferred stock; and
- a high degree of leverage may limit Gray's ability to react to changes in the broadcast television, publishing and paging industries, making it more vulnerable to economic downturns and limiting its ability to withstand competitive pressures.

Implementation of Digital Television Service May Adversely Affect Gray's Television Operations. The FCC has adopted rules and regulations, which require television stations to implement digital television service (including high definition) in the United States. Conversion to digital television service may reduce the geographic reach of Gray's television stations or result in increased interference with, in either case, a corresponding loss of population coverage. In addition, implementation of digital television service will impose significant additional costs on Gray's television stations, primarily due to the capital costs associated with the construction of digital television facilities and increased operating costs both during and after the transition to digital television service. Gray's television stations are required to begin broadcasting on their digital channels in addition to their analog channels in 2002.

Gray's Business May Be Affected by Adverse Regional and Local Business Conditions and Cyclical and Seasonal Fluctuations. Gray's television and newspaper businesses are affected by prevailing economic conditions. Since Gray relies on sales of advertising at its television stations and in its publications for substantially all of its revenues, Gray's operating results are sensitive to general economic conditions and regional conditions in each of the local markets served by its television stations and publications. In addition, most of Gray's stations and publications are located in the Southeast. As a result, Gray's results of operations may be adversely affected by recessionary economic conditions in the Southeast, nationally and, due to the substantial portion of revenues derived from local advertisers, the local economies in areas served by its television stations and publications.

Gray's results usually are subject to seasonal fluctuations, which result in fourth quarter broadcast operating income being greater usually than first, second and third quarter broadcast operating income. This seasonality is primarily attributable to increased expenditures by advertisers in anticipation of holiday season spending and an increase in viewership during this period. In addition, revenues from political advertising tend to be higher in even numbered years.

Gray's Business Depends in Large Part on the Success of Its Network Affiliations. All of Gray's television stations are affiliated with national networks. The television viewership levels for each of Gray's stations are dependent upon programming provided by the network with which each station is affiliated. Gray currently operates seven CBS affiliated stations and three NBC affiliated stations, and KWTX, Brazos and KXII operate CBS affiliated stations. The concentration of CBS affiliates makes Gray sensitive to adverse changes in its business relationship with, and the general success of, CBS.

Expiration of Network Affiliation Agreements. The network affiliation agreements for all of Gray's stations expire over the next several years. Gray may not be able to enter into new affiliation agreements that provide Gray with as much compensation from the networks as the present agreements.

Governmental Regulation Could Restrict, Suspend or Terminate Gray's Ability to Operate a Television Station. The operation of television stations is subject to regulation by the FCC, which has the power to suspend, or refuse to renew, television stations' licenses. The failure of the FCC to renew Gray's licenses would have a material adverse effect upon Gray and therefore would materially adversely affect an investment in Gray.

Gray's Businesses Are Very Competitive. The businesses engaged in by Gray are highly competitive. Competitors include companies with considerably greater financial, technical and marketing resources.

Technological innovation and the resulting proliferation of programming alternatives, such as the Internet, cable television, wireless cable, in home satellite-to-home distribution services, pay-per-view and home video and entertainment systems have fractionalized television viewing audiences and have subjected free over-the-air television broadcast stations to new types of competition.

RISKS RELATING TO KWTX, BRAZOS, KXII AND THE ACQUISITIONS

Adverse Regional and Local Business Conditions May Affect the Operations of KWTX, Brazos and KXII. The operations of KWTX, Brazos, and KXII are subject to regional and local business conditions. All three of these stations operate in Texas and KWTX and KBTX operate in the same market. Since the three stations rely on sales of advertising time for substantially all of their revenue, their operating results may be adversely effected by recessionary economic conditions primarily in Texas, nationally and, due to the substantial portion of revenues from local advertisers, the local economies in the areas served by KWTX, Brazos or KXII.

Acquisition Agreements Provide for the Issuance of a Currently Unquantifiable Number of Shares of Class B Common Stock. The acquisition agreements for KWTX and Brazos provide that the number of shares of Gray class B common stock to be issued will be based upon the market price of the Gray class B common stock: (1) during the 20 trading days immediately preceding the closing date of the acquisitions and (2) on the trading day immediately preceding the closing date. The acquisition agreements also

provide that shareholders of KWTX and Brazos may elect to receive all of the consideration in Gray class B common stock and that the amount of consideration to be paid by Gray will be increased by a portion of working capital amounts at KWTX and Brazos immediately prior to the closings. Accordingly, when voting to approve the issuance of shares of Gray class B common stock in these acquisitions, Gray shareholders will not know the exact number of shares of Gray class B common stock that ultimately may be issued. The pro forma financial statements contained in this proxy statement/prospectus are based upon assumptions concerning the number of shares of Gray class B common stock to be issued in the acquisitions, which assumptions may not prove to be accurate.

If Gray Cannot Successfully Integrate KWTX, Brazos and KXII, Gray's Business and the Combined Business Could Be Adversely Affected. To combine Gray, KWTX, Brazos, and KXII, Gray will need to integrate and coordinate the management and administrative functions, and sales, marketing and development efforts of each company. Combining these companies will present a number of challenges, including integrating the management of these companies who may have different approaches to sales and service, and the integration of a number of geographically separated facilities. In addition, Gray's management will be occupied with integrating these companies' operations following the acquisitions and this may temporarily distract management from day-to-day business. If Gray cannot successfully integrate these companies, Gray's business and the results of operations of the combined businesses could be adversely affected.

The Combined Company Will Depend on Senior Management Who May Not Continue to Work for the Combined Company. The success of the combined company depends to a significant extent on the efforts of the senior management of the combined company. As a result, if any of these individuals were to leave, the combined company could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successors gain the necessary experience.

THE SHAREHOLDERS MEETING

This proxy statement/prospectus is being furnished to the holders of Gray class A common stock and class B common stock in connection with the solicitation of proxies by the Gray board of directors for use at the annual meeting of shareholders to be held at 9:30 a.m., local time, on September 23, 1999, at The Peachtree Insurance Center, The Executive Board Room, 5th Floor, 4370 Peachtree Road, N.E., Atlanta, Georgia 30319, or any adjournment or postponement thereof.

This proxy statement/prospectus is first being mailed to Gray shareholders on or about August 23, 1999.

PURPOSE OF THE MEETING

The meeting has been called to consider and vote upon:

- a proposal to approve the issuance of shares of Gray class B common stock in connection with certain proposed acquisitions;
- the election of directors;

- a proposal to amend the 1992 Long Term Incentive Plan to increase by 1,000,000 shares the number of shares of Gray class B common stock issuable thereunder;
- a proposal to confirm the appointment of Ernst & Young LLP as the independent auditors; and
- the transaction of such other business as may properly come before the meeting.

REQUIRED VOTES

Approval of the issuance of shares of Gray class B common stock in connection with the proposed acquisitions, the amendment of the 1992 Long Term Incentive Plan and the confirmation of Ernst & Young LLP as the independent auditors requires the affirmative vote of the holders of a majority of the votes represented by the shares of Gray class A common stock and class B common stock, voting together as a single class, present in person or represented by proxy at the meeting and entitled to vote on the proposal. Election of directors requires a plurality of votes cast by holders of shares of Gray class A common stock and class B common stock, voting together as a single class.

RECORD DATE AND VOTING RIGHTS

The Gray board of directors has fixed the close of business on August 13, 1999 as the record date for determining holders of Gray class A common stock and class B common stock entitled to notice of, and to vote at, the meeting. Only holders of record of Gray class A common stock and class B common stock on that date will be entitled to notice of, and to vote at, the meeting. On the record date, 6,832,042 shares of Gray class A common stock and 5,147,522 shares of class B common stock were outstanding and entitled to vote. Each record holder of Gray class A common stock on the record date is entitled to cast 10 votes per share and each record holder of Gray class B common stock on the record date is entitled to cast one vote per share, in each case, exercisable in person, telephonically, by Internet or by properly executed proxy, on each matter properly submitted for the vote of the shareholders at the meeting.

The presence, in person or by properly executed proxy, of the holders of a majority of the votes represented by the outstanding Gray class A common stock and class B common stock entitled to vote at the meeting is necessary to constitute a quorum and transact business at the meeting. Abstentions will be counted for purposes of determining a quorum, but will have the effect of a vote against the matters being voted upon. If a broker holding shares in street name returns an executed proxy that indicates that the broker does not have discretionary authority to vote certain shares on one or more matters, those shares will count towards determining a quorum, but will have the effect of a vote against the matters being voted upon.

On August 9, 1999, Gray's directors, executive officers and affiliates of these directors and executive officers, beneficially owned in the aggregate 4,937,864 shares of Gray class A common stock and 439,750 shares of class B common stock, or approximately 57.8% of the votes represented by all outstanding shares of Gray class A common stock and class B common stock. Except for shareholders identified under "Proposal 2: Election of Directors -- Share Ownership," to the knowledge of Gray, no other person beneficially owned more than five percent of the outstanding shares of Gray class A common stock or class B common stock as on August 9, 1999.

VOTING AND REVOCATION OF PROXIES

All shares of Gray class A common stock and class B common stock that are entitled to vote and are represented at the meeting by valid proxies, and not duly and timely revoked, will be voted at the meeting in accordance with the instructions indicated on the proxies. If no instructions are indicated, the proxies will be voted "FOR" approval of the issuance of shares of Gray class B common stock in the acquisitions, the election of the directors specified in this proxy statement/prospectus, the amendment of the 1992 Long Term Incentive Plan and the confirmation of Ernst & Young LLP as the independent auditors of Gray. If any other matters are properly presented for consideration at the meeting, including consideration of a motion to adjourn or postpone the meeting to another time or place, the persons named in the enclosed form of proxy will have discretion to vote on those matters in accordance with their best judgment.

A Gray shareholder may revoke his or her proxy at any time before its use by delivering to the Secretary of Gray, a signed notice of revocation or a later, dated, signed proxy or by attending the meeting and voting in person. Attendance at the meeting will not, in itself, constitute the revocation of a proxy. All written notices of revocation and other communications with respect to revocation of proxies should be sent to: Gray Communications Systems, Inc., 4370 Peachtree Road, N.E., Atlanta, Georgia 30319, Attention: Corporate Secretary.

The cost of solicitation of proxies will be paid by Gray. In addition to solicitation by mail, proxies may be solicited in person by directors, officers and employees of Gray, without additional compensation, and by telephone, telegram, facsimile or similar method. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to send proxy material to beneficial owners. Gray will, upon request, reimburse them for their reasonable expenses in doing so.

PROPOSAL 1: APPROVAL OF THE ISSUANCE OF SHARES OF
CLASS B COMMON STOCK IN THE ACQUISITIONS

RECOMMENDATION OF THE GRAY BOARD OF DIRECTORS AND REASONS FOR THE RECOMMENDATION

At its meeting held on April 29, 1999, the Gray board of directors, approved the acquisitions, declared advisable the issuance of shares of Gray class B common stock in the acquisitions and determined that the terms of the issuance of such shares were fair to and in the best interests of the shareholders. Therefore, the Gray board recommends that its shareholders vote in favor of the proposal to approve the issuance of such shares.

In reaching its decision to approve the acquisitions and the issuance of shares of Gray class B common stock, the Gray board considered the following material factors:

- the acquisitions will create a stronger company and will diversify the geographic range of Gray's television stations;
- the acquisitions provide Gray access to additional operating cash flow for the purposes of funding debt service, as well as future acquisitions and investments;
- the terms of the acquisition agreements;

- the demographic characteristics and competitive dynamics of the markets served by KWTX, Brazos and KXII; and
- the strong management teams and local news operations of KWTX, Brazos and KXII.

The foregoing discussion of the factors considered by the Gray board is not intended to be exhaustive. In view of the variety of factors considered in connection with its evaluation of the acquisitions, the Gray board did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. In addition, individual members of the Gray board may have given different weight to different factors.

REASONS OF KWTX, BRAZOS AND KXII FOR RECOMMENDING THE ACQUISITIONS

At their meeting held on April 13, 1999, the KWTX, Brazos and KXII (which was then organized as a Texas corporation) boards of directors approved and declared advisable the acquisition agreements with Gray and determined that the terms of the acquisitions were fair to and in the best interests of their respective shareholders.

In evaluating the acquisitions, the boards of KWTX, Brazos and KXII considered the following material factors:

- the significant experience of Gray's management in operating television stations;
- current industry, economic and market conditions, including, in particular, the recent consolidation trend in the broadcast industry;
- the terms of the acquisition agreements;
- the tax-free nature of the shares of Gray class B common stock to be received in the KWTX and Brazos acquisitions;
- a significant portion of the consideration to be received by shareholders of KWTX and Brazos and all of the consideration to be received by shareholders of KXII will be in cash;
- the non-cash consideration to be received by shareholders of KWTX and Brazos will consist of Gray class B common stock, which trades on The New York Stock Exchange, thereby resulting in greater liquidity for such shareholders;
- the current and historical trading prices and values of the Gray class B common stock; and
- the expressed desire of the shareholders of KWTX, Brazos and KXII to sell the companies.

The foregoing discussion of the factors considered by the KWTX, Brazos and KXII boards is not intended to be exhaustive. In view of the variety of factors considered in connection with their respective evaluation of the acquisitions, the KWTX, Brazos and KXII boards did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching their respective determinations. In addition, individual members of the KWTX, Brazos and KXII boards may have given different weight to different factors.

BACKGROUND OF THE ACQUISITIONS

In 1998, the shareholders of KWTX, Brazos and KXII indicated that in light of the potential costs involved in converting the television stations to digital format, they would be interested in exploring strategic alternatives for the companies. Milford N. Bostick, Chairman of each of KWTX, Brazos and KXII and Ray M. Deaver, President of each of KWTX, Brazos and KXII, engaged in preliminary discussions with several potential acquisition candidates. Ultimately, the boards of directors of KWTX, Brazos and KXII did not reach an agreement with any of these candidates.

Hilton H. Howell, Jr., a director of Gray and a shareholder of KWTX, was generally aware that the owners of each of KWTX, Brazos and KXII were interested in pursuing possible business combination transactions with respect to these businesses, including mergers or the sale of substantially all of the assets of these businesses. In his capacity as a shareholder of KWTX, Mr. Howell was also aware that previous attempts by KWTX, Brazos and KXII to effect such transactions had been unsuccessful. In January 1999, Mr. Howell informed J. Mack Robinson, Gray's President, and Robert S. Prather, Jr., Gray's Executive Vice President -- Acquisitions, that he believed that senior management of each of KWTX, Brazos and KXII would be receptive to an acquisition proposal by Gray.

During February 1999, in telephone calls between Messrs. Robinson and Prather, on behalf of Gray, and Mr. Bostick, the potential acquisitions of KWTX, Brazos and KXII were explored. These telephone discussions led to exchanges of information over the next several weeks. On February 24, 1999, Messrs. Robinson, Prather and Howell met with Messrs. Bostick and Deaver. At this meeting, general terms of the potential acquisitions were discussed. Subsequent to this meeting, the parties continued to exchange information and to negotiate the terms of the acquisitions. On March 19, 1999 representatives of Gray also met with representatives of a principal shareholder of KWTX to discuss general terms of the acquisitions and related matters.

At its regularly scheduled meeting on February 25, 1999, the Gray board of directors approved in principle the acquisitions of KWTX, Brazos and KXII. Because Gray will pay a fee to Bull Run for advisory services in connection with the acquisitions, Mr. Robinson (Chairman of the Board of Bull Run), Harriett J. Robinson (Mr. Robinson's wife), Mr. Prather (President of Bull Run) and Mr. Howell (Vice President and Secretary of Bull Run and a shareholder of KWTX), abstained from voting on the proposal relating to the acquisitions. On April 13, 1999, the boards of directors of KWTX, Brazos and KXII (which was then organized as a Texas corporation) met and approved the acquisitions. At these meetings, the respective shareholders of KWTX and Brazos were invited to observe, for information purposes only, the board of directors meetings. The shareholders who attended the meetings were not solicited for any vote, nor did they vote, upon the proposed transactions. Mr. Prather attended a portion of the meetings to answer any questions regarding the business of Gray.

The definitive agreements for KWTX and Brazos were completed and signed on April 13, 1999. The parties to the KXII acquisition agreement entered into an enabling agreement, whereby each agreed to execute the definitive asset purchase agreement as soon as practicable. The definitive agreement for KXII was signed on April 26, 1999. The definitive agreements, as executed, were ratified by the Gray board of directors on April 29, 1999. Mr. and Mrs. Robinson and Messrs. Prather and Howell also abstained from this vote.

INTERESTS OF CERTAIN PERSONS IN THE ACQUISITIONS

In considering the recommendation of the Gray board of directors with respect to the acquisitions, shareholders of Gray should be aware that certain persons may have direct and indirect interests in the acquisitions separate from the shareholders of Gray, including those interests discussed below.

It is anticipated that Ray M. Deaver, the President of each of KWTX, Brazos and KXII will enter into an employment agreement with Gray, which will become effective upon the consummation of the acquisitions. It is anticipated that this employment agreement will provide for Mr. Deaver's employment as Regional Vice President -- Texas of Gray at an annual salary of not less than \$230,000 with a bonus of \$125,000 for each year during his employment by Gray that KWTX, Brazos and KXII reach the annual budget set by Gray for the three stations. In addition, it is expected that the employment agreement will provide that Mr. Deaver will receive a bonus equal to 10% of the amount by which the net operating profit of those three stations, on an aggregate basis, exceeds the annual budget set by Gray. It is also anticipated that Gray will grant Mr. Deaver a stock option to purchase 15,000 shares of Gray class B common stock under Gray's 1992 Long Term Incentive Plan at an exercise price equal to the fair market value of the Gray class B common stock on the date of grant and that one-third of this option will vest on each anniversary of the date of grant.

For advisory services rendered by Bull Run to Gray in connection with the proposed acquisitions of KWTX, Brazos and KXII, Gray paid Bull Run \$400,000 on May 19, 1999, \$800,000 on August 11, 1999 and will pay Bull Run an additional \$190,000 upon the consummation of these acquisitions. For additional information regarding related transactions with Bull Run, see pages 97 and 99.

Hilton H. Howell, Jr., a director of Gray, owns approximately 1.04% of the issued and outstanding capital stock of KWTX. In addition, members of Mr. Howell's family own approximately 13.21% of the issued and outstanding capital stock of KWTX.

THE ACQUISITION AGREEMENTS

Set forth below is a summary of the material terms and provisions of the acquisition agreements. A copy of the acquisition agreements are attached as Appendices A, B and C to this proxy statement/prospectus and are incorporated in this proxy statement/prospectus by reference. Gray shareholders are urged to read the acquisition agreements in their entirety for a more complete description of the acquisitions.

The Acquisitions. Immediately after the approval by Gray shareholders of the issuance of shares of Gray class B common stock in accordance with the acquisition agreements, on the terms and subject to the conditions of the acquisition agreements and subject to the right of Gray to pay all cash under certain circumstances, (1) KWTX and Brazos will merge into a wholly owned subsidiary of Gray and (2) a wholly owned subsidiary of Gray will purchase all of the assets of KXII. As a result of the acquisitions, KWTX and Brazos will become a wholly owned subsidiary of Gray and a wholly owned subsidiary of Gray will own all of the assets of KXII. In the acquisitions, KWTX and Brazos shareholders will receive a combination of cash and shares of Gray class B common stock in exchange for their shares, while the sellers of KXII will receive solely cash. If Gray elects to pay all of the acquisition consideration in cash, in accordance with the terms of the acquisition agreements, then wholly owned subsidiaries of Gray will merge

into KWTX and Brazos and KWTX and Brazos will become wholly owned subsidiaries of Gray.

Effective Time. The KWTX and Brazos acquisitions will become effective upon the filing of articles of merger with the Secretaries of State of the States of Georgia and Texas. These filings are anticipated to take place as soon as practicable after (1) the receipt of Gray, KWTX and Brazos shareholder approvals and all required regulatory approvals and (2) the satisfaction or waiver of the other conditions to the acquisitions. The KXII acquisition will occur when all of the assets of KXII are transferred to Gray's subsidiary. It is currently anticipated that the effective time of the acquisitions will occur as soon as practicable after the annual meeting of Gray shareholders.

Consideration to be paid by Gray. If the acquisitions of KWTX, Brazos and KXII are completed:

- KWTX shareholders will receive in exchange for each share of KWTX stock each shareholder holds: cash and Gray class B common stock (or under certain circumstances described below, all cash) equal to the sum of (1) \$74,680,000, (2) the amount by which the current assets and certain other assets of KWTX exceed its current liabilities and (3) 50% of the amount by which the current assets and certain other assets of Brazos exceed its current liabilities divided by (4) 1,550 (the number of outstanding shares of KWTX common stock). In general and subject to the election of Gray to pay all of the acquisition consideration in cash and certain limitations discussed below, each holder will have the right to elect the percentage of the consideration to be received in cash and the percentage to be received in Gray class B common stock, provided that each KWTX shareholder must take at least 40% of the total consideration in stock.
- Brazos shareholders (other than KWTX) will receive in exchange for each share of Brazos stock each shareholder holds: cash and Gray class B common stock (or under certain circumstances described below, all cash) equal to the sum of (1) \$22,820,000 and (2) 50% of the amount by which the current assets and certain other assets of Brazos exceed its current liabilities divided by (3) 250 (the number of outstanding shares of Brazos common stock not held by KWTX). In general and subject to the election of Gray to pay all of the acquisition consideration in cash and certain limitations discussed below, each holder will have the right to elect the percentage of the consideration to be received in cash and the percentage to be received in Gray class B common stock, provided that each Brazos shareholder must take at least 40% of the total consideration in stock.
- Gray will pay the sellers of KXII cash equal to the sum of (1) \$41,500,000 and (2) the value of all accounts receivable, notes receivable and other monies due to KXII for sales and deliveries of goods, performance of services and other business transactions on the date of the acquisition, reduced by: (a) an amount equal to two percent of such value and (b) all reserves for doubtful accounts or similar reserves. Gray will also assume specified liabilities of KXII. At June 30, 1999, such liabilities were approximately \$259,000.

Valuation of Gray Class B Common Stock and Limitations on Elections. The KWTX and Brazos acquisition agreements provide that the number of shares of Gray class B common stock to be issued as merger consideration will be determined by dividing the merger consideration to be paid in Gray class B common stock by its average closing

price on The New York Stock Exchange for the 20 consecutive trading days immediately preceding the closing date, except that:

- if the average price, as so determined, is less than \$14 per share, Gray class B common stock will be valued at \$14 per share, and if the average price is greater than \$15 per share, Gray class B common stock will be valued at \$15 per share;
- notwithstanding the average per share price of Gray class B common stock during the 20 trading day period immediately preceding the closing, if the price of Gray class B common stock on the day immediately preceding the closing date is less than \$14 per share, the number of shares of Gray class B common stock to be issued will be increased, so that each shareholder of KWTX and Brazos will receive at least 40% of the consideration in Gray class B common stock, valued as of the trading day immediately preceding the closing date, and the remainder in cash; and
- if (1) the average per share price of Gray class B common stock during the 20 trading day period immediately preceding the closing is less than \$10 or (2) the closing price per share on the day immediately preceding the closing date is less than \$10, the acquisition agreements provide that Gray may extend the closing date to obtain its shareholders' approval of the issuance of such number of shares of class B common stock as may be required under the agreements so that each of the KWTX and Brazos shareholders receive at least 40% of the merger consideration in Gray class B common stock.

Gray Election to Pay Cash Only. If the average per share price of Gray class B common stock during the 20 trading day period immediately preceding the closing date of the KWTX or Brazos acquisitions or the price of Gray class B common stock on the closing date is less than \$12 per share, Gray may pay all of the acquisition consideration for KWTX and Brazos in cash, in which event the total acquisition price will be reduced by \$1,530,000 in the case of KWTX and \$470,000 in the case of Brazos.

No Fractional Shares. No fractional shares of Gray class B common stock will be issued to holders of KWTX or Brazos stock. Instead, the shareholders otherwise entitled to a fractional share of Gray class B common stock will receive the cash value of the fractional share.

Officers and Directors. The acquisition agreements provide that the officers and directors of the wholly owned subsidiaries of Gray immediately prior to the acquisitions, together with such additional persons as may be elected, will serve as the officers and directors of the surviving corporation (in the case of the mergers of KWTX and Brazos) or Gray's subsidiary which is purchasing assets (in the case of KXII).

Conditions to the Acquisitions. The closing of the acquisitions of KWTX and Brazos are mutually dependent, so that if both acquisitions are not consummated, neither may be consummated. The closing of the acquisition of KXII is dependent on the consummation of the acquisitions of KWTX and Brazos. Under the acquisition agreements, the respective obligations of each party to effect the acquisitions are subject to the satisfaction or waiver of the following material conditions:

- the representations and warranties of the parties in the acquisition agreements shall be true and correct as of the closing date in all material respects and the parties shall have performed in all material respects their obligations required to be performed by them under the acquisition agreements;

- the receipt of FCC approval;
- no stop order suspending the effectiveness of the registration statement, of which this proxy statement/prospectus is a part, shall have been issued by the Securities and Exchange Commission and no proceedings for that purpose, and no similar proceeding in respect of this proxy statement/prospectus, shall have been initiated or threatened by the Securities and Exchange Commission;
- the shareholders of Gray, KWTX and Brazos shall have approved the acquisitions;
- no temporary restraining order, injunction or other order, binding legal restraint or prohibition preventing the consummation of the acquisitions shall be in effect;
- legal opinions with respect to certain aspects of the acquisitions shall have been received;
- the shares of Gray class B common stock issuable pursuant to the acquisition agreements shall have been approved for listing on The New York Stock Exchange; and
- all applicable waiting periods relating to the Hart-Scott-Rodino Act shall have expired or otherwise terminated.

The obligations of each of KWTX and Brazos to complete the acquisitions are also subject to the following material conditions:

- a legal opinion with respect to certain tax consequences of the acquisitions shall have been delivered to KWTX and Brazos; and
- certain principal shareholders of Gray shall have agreed to vote their shares in favor of the acquisition.

The obligations of Gray to complete the acquisitions are also subject to the following material conditions:

- each director, officer or 5% shareholder of KWTX and Brazos shall have agreed to vote his shares in favor of the acquisition;
- written results of an environmental audit of KWTX's and Brazos's real property acceptable to Gray shall have been received by Gray; and
- standard form policies of owner's or lessee's title insurance, insuring the applicable party's title as owner or as lessee, shall have been received by Gray.

Representations and Warranties. The acquisition agreements contain various customary representations and warranties of the parties, including representations and warranties made by each of the parties with respect to its:

- organization, standing and power;
- capital structure;
- financial statements;
- authority relative to the acquisition agreement;
- certificate of incorporation and bylaws;

- absence of litigation;
- compliance with law and permits;
- employee benefit plans;
- consents and approvals; and
- absence of brokers.

In addition, each of KWTX, Brazos and KXII made representations and warranties with respect to its:

- subsidiaries;
- contracts and commitments;
- real property;
- environmental, health and safety matters;
- personnel information;
- certain business practices and potential conflicts of interest;
- labor relations;
- FCC licenses;
- title to and condition of assets;
- intellectual property;
- insurance; and
- taxes.

In addition, Gray made a representation and warranty with respect to the accuracy and completeness of its filings with the Securities and Exchange Commission.

Covenants. The acquisition agreements contain several covenants concerning the conduct of the parties including the following material covenants relating to:

- agreement by KWTX, Brazos and KXII not to solicit, or take any other action to facilitate, any proposal or offer from any person for the acquisition of KWTX and Brazos or KXII or any proposal to acquire in any manner a substantial equity interest in, or a substantial portion of the assets of, KWTX, Brazos or KXII;
- meetings of the shareholders of Gray, KWTX and Brazos to approve the acquisitions;
- recommendation of the respective boards of directors of Gray, KWTX and Brazos to their shareholders to vote in favor of the acquisitions;
- confidentiality of information obtained in connection with the proposed acquisitions;
- access to information;
- coordination and cooperation with respect to meetings of shareholders;

- preparing and filing disclosure documents and a registration statement of which this proxy statement/prospectus is a part;
- actions and filings with governmental bodies, agencies, officials or other authorities and third parties;
- public announcements; and
- government authorizations.

Further Action. The acquisition agreements provide that each of the parties to the acquisition agreements will in good faith use all commercially reasonable efforts to take all actions and to do all other things necessary, proper or advisable to:

- consummate and make effective as promptly as practicable the transactions contemplated by the acquisition agreements;
- obtain in a timely manner all necessary waivers, consents and approvals;
- effect all necessary registrations and filings; and
- otherwise satisfy or cause to be satisfied all conditions precedent to its obligations under the acquisition agreements.

Termination. The acquisition agreements provide that they may be terminated and the acquisitions may be abandoned at any time before the effective time of the acquisitions, even if all requisite shareholder approvals have been obtained, under the following circumstances:

- by mutual consent of the parties;
- by any party, if any material representation, warranty, covenant or agreement of another party shall have been incorrect or breached and shall not have been cured or otherwise resolved to the reasonable satisfaction of the other party on or before the closing date; provided, however, that prior to such termination the party in default shall be given written notice by the other party, and shall have 10 days in which to cure such default;
- by any party, if the acquisitions have not occurred by December 31, 1999, unless the assignment applications jointly filed by the parties are still pending before the FCC on that date, in which case the acquisition agreements shall not be terminated until May 31, 2000, but after which, any party may terminate the acquisition agreements; and
- by KWTX or Brazos, if Gray fails to obtain shareholder approval of the issuance of the Gray class B common stock in the acquisitions within 40 days after the registration statement, of which this proxy statement/prospectus is a part, has been declared effective by the SEC.

If the acquisition agreements are terminated, the acquisition agreements provide that they will become void and there will be no liability on the part of any party except:

- if the termination occurs as a result of a breach or default by any of KWTX, Brazos or KXII then Gray shall be entitled to seek specific performance of any of KWTX's, Brazos' or KXII's obligation to effect the acquisition in accordance with the provisions of the acquisition agreements; and

- if the termination occurs as a result of a breach or default by Gray, then each of KWTX, Brazos and KXII may retain as liquidated damages \$1,000,000 of Gray's \$3,000,000 deposit being held in escrow.

Fees and Expenses. Whether or not the acquisitions are consummated, each party will pay its own costs and expenses in connection with preparing, entering into and carrying out the acquisition agreements and related transactions, except that Gray, KWTX, Brazos and KXII shall share equally in the payment of FCC and Hart-Scott-Rodino Act filing fees, and the fees of any certified public accountants used in connection with the determination of the net working capital of KWTX and Brazos.

Indemnification. Under the acquisition agreements, the shareholders of KWTX and Brazos and the sellers of the assets of KXII agreed to indemnify Gray against any damages arising from breaches of the representations, warranties, agreements and covenants of KWTX, Brazos and the sellers of the assets of KXII, as the case may be, provided that these parties' indemnification liabilities may not exceed \$750,000 (in the case of KWTX), \$250,000 (in the case of Brazos), and \$300,000 (in the case of KXII). A total of \$1,300,000 will be escrowed at the closings of the acquisitions to support these indemnification provisions. One-half of this amount will be released one year after the closings, subject to any claims pending at that time. Four years after the closing dates of the acquisitions, any escrowed funds not distributed or reserved for distribution to satisfy these indemnification obligations will be distributed among the former shareholders of KWTX and Brazos and the sellers of the assets of KXII. The acquisition agreements also provide for indemnification by Gray for four years for breaches by Gray of its representations, warranties, covenants and agreements, subject to the same monetary limitations, although Gray will not escrow any funds to support these indemnification obligations.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes the material federal income tax consequences of the KWTX and Brazos acquisitions. The discussion is not exhaustive as to all possible tax considerations and does not include a discussion of any state, local or foreign tax considerations. In addition, the discussion is intended to address only those federal income tax considerations that are generally applicable to U.S. shareholders of Gray, KWTX and Brazos and does not discuss all of the aspects of federal income taxation that may be relevant to shareholders, including insurance companies, tax-exempt entities, financial institutions, broker-dealers, foreign corporations and persons who are not citizens or residents of the United States who are subject to special treatment under the federal income tax laws.

The following discussion assumes that the KWTX and Brazos shareholders hold their respective shares of KWTX or Brazos stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code. It is based upon current provisions of the Internal Revenue Code and its legislative history, existing, temporary and currently proposed Treasury Regulations, existing administrative rulings and practices of the Internal Revenue Service and judicial decisions. No assurance can be given that legislative, judicial or administrative changes will not affect the accuracy of this discussion, possibly on a retroactive basis. In addition, no rulings from the IRS with respect to the tax consequences of the acquisitions will be sought. Accordingly, no assurance can be given that the

statements set forth in this discussion will not be challenged by the IRS and sustained by the courts if so challenged.

This discussion is not intended as a substitute for careful tax planning. Each KWTX and Brazos shareholder is urged to consult his own tax advisor regarding the specific tax consequences of the acquisitions, including the federal, state, local and foreign tax consequences that may be applicable to such shareholder.

Unless Gray elects to pay all of the acquisition consideration for KWTX or Brazos in cash, each of these acquisitions should qualify as a reorganization under Section 368(a) of the Internal Revenue Code, and consummation of each of these acquisitions is conditioned upon the receipt by the parties of an opinion from King & Spalding, tax counsel to Gray, substantially to the effect that each of the acquisitions should constitute a reorganization under Section 368(a) of the Internal Revenue Code.

If the KWTX and Brazos acquisitions constitute "reorganizations" under Section 368(a) of the Internal Revenue Code, the acquisitions generally will have the following federal income tax consequences:

- No gain or loss will be recognized by a holder of KWTX stock or of Brazos stock whose shares of such stock are exchanged solely for shares of Gray class B common stock.
- A KWTX or Brazos shareholder who exchanges his KWTX or Brazos stock for a combination of Gray class B common stock and cash (other than cash in lieu of a fractional share of Gray class B common stock) will recognize gain, if any, realized on the exchange, but in an amount which does not exceed the amount of cash received. Any such gain recognized should generally be taxable to KWTX or Brazos shareholders as capital gain and should be long-term capital gain if the shareholder has held his KWTX or Brazos stock for more than one year at the time of the acquisitions. It is possible, however, that such gain will be taxable as dividend income to a particular shareholder if the cash received by him does not result in a "meaningful reduction" in the percentage ownership of Gray class B common stock that he otherwise would have received had he not elected to receive the cash. Any such determination would take into account both his actual and constructive ownership of Gray class B common stock under the constructive ownership rules of Section 318 of the Internal Revenue Code. A KWTX or Brazos shareholder who receives both Gray class B common stock and cash will not be permitted to recognize any loss on the exchange with respect to which the cash was received.
- The tax basis of the Gray class B common stock received by a KWTX or Brazos shareholder in the acquisitions will be the same as the shareholder's tax basis in the KWTX or Brazos stock surrendered in exchange therefor (reduced by an amount allocable to a fractional share of Gray class B common stock for which cash is received), less the amount of any cash consideration received by the shareholder (other than cash received in lieu of a fractional share of Gray class B common stock), plus any amount that is treated as gain or as a dividend to the shareholder.
- The holding period of the Gray class B common stock received by the KWTX and Brazos shareholders in the acquisitions (including a fractional share of Gray class B common stock deemed to have been received and then redeemed) will include the holding period of the KWTX or Brazos stock surrendered in exchange therefor.

- Cash received by a KWTX or Brazos shareholder in lieu of a fractional share of Gray class B common stock will be treated as having been received in exchange for such fractional share, and capital gain or loss will be recognized by such shareholder in an amount equal to the difference between the amount of cash received and the portion of the tax basis of the share of KWTX or Brazos stock allocable to such fractional interest. Any such gain or loss will be long term capital gain or loss if the share of KWTX or Brazos stock exchanged for the fractional share of Gray class B stock was held for more than one year at the time of the acquisitions.
- No gain or loss will be recognized by Gray, the Gray merger subsidiaries, Gray's shareholders, KWTX or Brazos in connection with the acquisitions.

In rendering its tax opinions, King & Spalding will make customary factual assumptions and will rely upon customary representations of appropriate officers of Gray, KWTX and Brazos, including a representation that the aggregate fair market value of the Gray class B common stock that will be issued to KWTX shareholders in the KWTX acquisition and to Brazos shareholders in the Brazos acquisition will represent not less than 40% of the aggregate value of the total consideration that will be received by the respective shareholders of KWTX and Brazos (taking into account any cash paid in lieu of fractional shares of Gray class B common stock). In addition, King & Spalding will assume and rely on representations that the fair market value of the Gray class B common stock and other consideration that will be received by each shareholder in the KWTX and Brazos acquisitions will be approximately equal to the fair market value of the KWTX or Brazos stock surrendered in exchange therefor. King & Spalding's opinions cannot be relied upon if any of the assumptions or representations upon which the opinions are based is, or later becomes, inaccurate.

Gray's Election to Pay Cash Only. If Gray elects to pay all of the acquisition consideration for KWTX and Brazos in cash, a wholly owned subsidiary of Gray will merge with and into KWTX and another wholly owned subsidiary of Gray will merge with and into Brazos, and KWTX and Brazos will be the surviving corporations in such mergers. For federal income tax purposes, the KWTX shareholders and Brazos shareholders will be treated as having sold their shares to Gray for cash and will recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the shareholder's adjusted tax basis in his KWTX or Brazos stock, but no gain or loss will be recognized by Gray, the Gray merger subsidiaries, Gray's shareholders, KWTX or Brazos.

Escrow to Secure Representations and Warranties. A portion of the cash consideration otherwise payable to the KWTX and Brazos shareholders will be deposited into an escrow account at closing to secure such shareholders' indemnification obligations to Gray. A KWTX or Brazos shareholder's right to receive distributions from the escrow account in the future should be treated as an installment obligation for federal income tax purposes. Accordingly, any gain recognized by a KWTX or Brazos shareholder in the KWTX or Brazos acquisition will be required to be taken into account by such shareholder under the installment method of tax accounting unless (1) the shareholder affirmatively elects out of the installment method or (2) the cash consideration paid to the shareholder is taxable as a dividend, in which case the installment method will not be available.

If the installment method applies, any taxable gain recognized by a KWTX or Brazos shareholder generally will be taken into account at the time that payments, including

distributions from the escrow account, if any are received. In the case of a "reorganization" qualifying under Section 368(a) of the Internal Revenue Code in which (1) a KWTX or Brazos shareholder receives a combination of Gray class B common stock and cash and (2) the amount of cash to be received by the shareholder does not exceed the shareholder's realized gain, the entire amount of each cash payment to the shareholder (other than amounts treated as interest for federal income tax purposes) will be taken into account as taxable gain at the time of receipt. Conversely, if the shareholder has a basis in his KWTX or Brazos stock that exceeds the fair market value of the Gray class B common stock received, a portion of the cash consideration received by the shareholder equal to such excess will be treated as a tax-free recovery of basis. The determination of the portion of each payment treated as basis recovery would be determined under the Treasury Regulations discussed below. In addition, if Gray elects to pay all cash in the KWTX or Brazos acquisition, a portion of each cash payment to shareholders reporting their taxable gain under the installment method will be treated as a tax-free recovery of basis under the rules discussed below.

Under the Treasury Regulations governing the installment method of reporting, the KWTX and Brazos acquisitions, because of the payments from the escrow account, likely will be treated as "contingent payment" transactions in which there is neither a stated maximum selling price nor a fixed maximum period during which payments will be received. In such circumstances, a shareholder who realizes gain and does not elect out of the installment method might be able to recover only 1/15 of the basis of his KWTX or Brazos stock in each taxable year. This would include the taxable year in which the KWTX and Brazos acquisitions close, even though the shareholder will have received in such year substantially all of the consideration payable to him by Gray. Shareholders should consult their tax advisors regarding the basis recovery rules under the installment method and may wish to consider electing out of the installment method to avoid the potentially adverse consequences of such rules.

The right to receive distributions from the escrow account likely will be treated as a "contingent payment debt instrument" subject to Section 1274 of the Internal Revenue Code and the regulations thereunder, and shareholders will be required to include in gross income the imputed interest attributable to the debt instrument. Imputed interest is taxable at ordinary income rates. The amount of imputed interest with respect to the debt instrument will equal the difference between (1) the amount of distributions from the escrow account, including earnings on amounts in the escrow account, and (2) the present value of such distributions, discounted back to the closing date of the acquisitions at the "applicable federal rate" (the "AFR").

Gray intends to take the position that the possibility of a claim being made against the escrow account is a "remote" contingency and that distributions from the escrow account (other than distributions attributable to earnings on the escrow account) are thus "noncontingent" payments. Under applicable Treasury Regulations, imputed interest with respect to noncontingent payments is treated as original issue discount ("OID") and must be accrued by the former KWTX and Brazos shareholders on a constant yield basis, regardless of the shareholder's regular method of tax accounting. Gray's determination that distributions from the escrow account are noncontingent payments is binding on shareholders who do not explicitly disclose to the IRS in their tax returns that they are taking a contrary position.

Gray intends also to take the position that distributions of the earnings on the escrow account should be treated as contingent payments. Imputed interest with respect to a

contingent payment is not determined until the payment becomes fixed and is not includible in the gross income of a KWTX or Brazos shareholder until the taxable year in which the contingent payment is made.

If a shareholder elects out of the installment method, the contingent payment debt instrument deemed to have been received will have to be included in the shareholder's "amount realized" for purposes of computing gain or loss. In general, the "amount realized" with respect to a contingent payment debt instrument is equal to the "issue price" of any noncontingent payments required by the debt instrument (which is the difference between any such noncontingent payments and their present value, using the AFR as the discount rate), increased by the "fair market value" of the contingent payments required by the instrument. If the contingent payments treated as principal exceed the shareholder's basis in the right to receive such payments, the excess will be treated as gain from the sale or exchange of the debt instrument. Conversely, any unrecovered basis in the right to receive contingent payments remaining at the time the final contingent payment is made generally will be treated as a loss from the sale or exchange of the debt instrument. In general, a shareholder's basis in the right to receive the contingent payments should equal the fair market value of such contingent payments determined as of the date that the debt instrument was deemed to have been issued.

The rules governing the installment method of reporting, as well as the imputed interest rules, are extremely complex. KWTX and Brazos shareholders are encouraged to discuss the treatment of the escrow account with their personal tax advisors in order to acquire a complete understanding of the effects of installment reporting and the imputed interest rules.

Backup Withholding and Information Reporting. Any cash received in the KWTX or Brazos acquisitions by a KWTX or Brazos shareholder may be subject to backup withholding at a 31% rate. Backup withholding will not apply, however, to a taxpayer who (1) furnishes a correct taxpayer identification number on IRS Form W-9 or an appropriate substitute form and certifies on such Form that he or she is not subject to backup withholding, (2) provides a certificate of foreign status on IRS Form W-8 or an appropriate substitute form, or (3) is otherwise exempt from backup withholding. Any amount paid as backup withholding will be credited against the holder's federal income tax liability.

KWTX and Brazos shareholders who receive Gray class B common stock also must comply with the information reporting requirements of the Treasury Regulations under Section 368 of the Internal Revenue Code. In general, these regulations require any taxpayer who receives stock, securities or other property, including cash, in a "reorganization" described in Section 368(a) of the Internal Revenue Code to include with his income tax return a complete statement of the facts pertaining to the nonrecognition of gain or loss including (1) the cost or other basis of the stock or securities transferred in the exchange and (2) the amount of stock, securities, or other property received in the exchange. In addition, the statement must include the fair market value, as of the date of the exchange, of each type of stock, securities or other property received by the taxpayer, and the taxpayer is required to maintain permanent records. All KWTX and Brazos shareholders are encouraged to consult their own tax advisors to determine the specific information that may be needed to file pursuant to the Treasury Regulations under Section 368 of the Internal Revenue Code.

THIS DISCUSSION IS ONLY A SUMMARY OF THE MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE KWTX AND BRAZOS ACQUISITIONS AND DOES NOT PROVIDE A COMPLETE ANALYSIS OF SUCH CONSEQUENCES. IN ADDITION, THIS DISCUSSION DOES NOT ADDRESS TAX CONSEQUENCES WHICH MAY VARY WITH, OR ARE CONTINGENT UPON, INDIVIDUAL CIRCUMSTANCES. MOREOVER, THE DISCUSSION DOES NOT ADDRESS ANY NON-INCOME TAX OR FOREIGN, STATE OR LOCAL TAX CONSEQUENCES OF THE ACQUISITIONS. ACCORDINGLY, KWTX AND BRAZOS SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE PARTICULAR FEDERAL, STATE, LOCAL OR FOREIGN INCOME OR OTHER TAX CONSEQUENCES RESULTING FROM THE ACQUISITIONS.

ACCOUNTING TREATMENT

The acquisitions of KWTX, Brazos and KXII will be accounted for under the purchase method of accounting. Generally, under the purchase method of accounting, assets acquired and liabilities assumed are recorded at their fair value.

REGULATORY MATTERS

Under the Communications Act, the acquisitions may not be consummated until the FCC has approved the assignment of the FCC licenses of KWTX, Brazos and KXII to Gray. This approval has been obtained.

Under the Hart-Scott-Rodino Act, the acquisitions may not be consummated until notifications have been given and information has been furnished to the Federal Trade Commission and the Anti-Trust Division of the United States Department of Justice and specified waiting period requirements have expired. On July 23, 1999, Gray, KWTX and Brazos filed the required notification and report forms under the Hart-Scott-Rodino Act with the FTC and Anti-Trust Division, and the applicable waiting period scheduled to expire at midnight on August 22, 1999, unless earlier termination is granted. At any time before or after the effective time of the acquisitions, the FTC or the Antitrust Division could take any action under the United States antitrust laws that it deems necessary or desirable in the public interest. This could include seeking to enjoin the acquisitions or seeking the divestiture of KWTX, Brazos or KXII by Gray, in whole or in part, or the divestiture or compulsory licensing of substantial assets of Gray, KWTX, Brazos or KXII or their respective subsidiaries. State attorneys general and private parties may also bring legal actions under the federal or state antitrust laws in some cases.

FINANCING OF THE ACQUISITIONS

The total amount of funds required by Gray to consummate the acquisitions and pay related fees and expenses is estimated to be approximately \$100 million. Gray intends to finance the cash consideration required by the acquisition agreements by issuing long-term debt. Gray is analyzing various financing alternatives and is in discussions with its lenders to provide the financing. While exact financing terms have not been finalized, Gray currently believes the financing will be completed incorporating the general terms outlined below. Additional funds, if any, necessary to complete the financing are expected to be borrowed under Gray's existing revolving credit facility.

Principal Amount: \$100,000,000

Interest Rate: Variable -- based on LIBOR plus an additional percentage based upon Gray's overall ratio of indebtedness to its operating cash flow

Interest Payable: Quarterly in arrears

Repayment and
Final Maturity: .25% of principal quarterly each March 31, June 30, September 30 and December 31 beginning March 31, 2001 through September 30, 2005, with the remaining outstanding principal due and payable on December 31, 2005

Ranking and
Security: The indebtedness will be senior secured indebtedness of Gray and Gray and its subsidiaries will jointly and severally pledge their assets to guarantee the indebtedness

Covenants: The credit agreement is expected to contain normal and customary debt covenants, such as debt service coverage ratios and the requirement of Gray to maintain certain financial ratios, and will limit Gray's ability to incur additional indebtedness

The actual amount of cash that will be needed to complete the acquisitions is unknown at this time and is dependent on the following factors:

- the election of each of the KWTX and Brazos shareholders regarding the proportion of cash and Gray class B common stock to be received in the acquisitions;
- the final amount of the specified working capital accounts as to which the acquisition agreements require Gray to increase the consideration payable;
- the election by Gray to pay all of the merger consideration in cash if the per share price of the Gray class B common stock for the 20 trading days preceding the closing date is less than \$12; and
- the actual amount of the transaction and closing costs.

If additional financing is required, Gray currently intends to fund such amounts by drawing on its existing bank revolving credit facility. As of June 30, 1999, Gray had availability of approximately \$69.3 million under the terms of that facility. Gray would be required to explore alternative financing arrangements if its borrowing ability under the revolving credit facility was insufficient to meet any additional financing necessary to complete the acquisitions.

If KWTX and Brazos shareholders elect to receive more than 40% of their respective consideration in Gray class B common stock, the cash consideration will be correspondingly reduced. In such circumstances, Gray would either:

- reduce the planned \$100 million new debt issuance to an appropriate lesser amount;
- fund the cash consideration required by exclusively drawing on its existing bank revolving credit facility; or

- issue a smaller principal amount of new debt and draw on its existing revolving credit facility.

Gray will require modifications to its existing bank senior credit facility to allow for the expected increase in Gray's total indebtedness and the issuance of the planned additional senior debt. These actions will require the approval of over two-thirds of the senior credit facility's participants. Gray currently believes that such approval will be obtained. If the approval were not obtained, Gray would explore alternate financing arrangements.

RESALE OF GRAY CLASS B COMMON STOCK FOLLOWING THE ACQUISITIONS

In general the shares of the Gray class B common stock issuable upon conversion of the KWTX and Brazos stock in the acquisitions will be freely transferable. However, securities received by any shareholder who is an "affiliate" of KWTX or Brazos for purposes of Rule 145 under the Securities Act of 1933 will not be transferable, except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act of 1933. An affiliate, as defined under the Securities Act of 1933, generally includes, without limitation, directors, certain executive officers and beneficial owners of 10% or more of a class of capital stock. This proxy statement/prospectus does not cover sales of Gray class B common stock issued to any person who is an affiliate of KWTX or Brazos. However, the acquisition agreements require Gray to register for resale the shares of Gray class B common stock received by affiliates of KWTX and Brazos.

SHAREHOLDERS' AGREEMENTS

Each director, officer and five percent shareholder of each of KWTX and Brazos and certain principal shareholders of Gray have agreed to vote their shares in favor of the acquisitions. As of June 30, 1999, the shares subject to such voting agreements represented 66.9% of the outstanding shares of KWTX, 69.2% of the outstanding shares of Brazos and 48.9% of the votes represented by the outstanding shares of Gray class A common stock and class B common stock.

NO APPRAISAL RIGHTS AVAILABLE TO GRAY SHAREHOLDERS

Under Georgia law, Gray shareholders who object to the proposal to approve the issuance of shares of Gray class B common stock pursuant to the acquisition agreements will not be afforded statutory appraisal rights.

SELECTED FINANCIAL INFORMATION OF GRAY

The following selected consolidated financial data for, and as of the end of, each of the years in the five-year period ended December 31, 1998 are derived from the audited consolidated financial statements of Gray. The consolidated financial statements as of December 31, 1997 and 1998 and for each of the years in the three-year period ended December 31, 1998 have been audited by Ernst & Young LLP, independent auditors, which consolidated financial statements and auditors' report thereon are incorporated by reference in this proxy statement/prospectus. The selected consolidated financial data as of June 30, 1998 and 1999 and for the six-month periods then ended are derived from the unaudited condensed consolidated financial statements of Gray incorporated by reference in this proxy statement/prospectus which, in the opinion of management of Gray, include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the data for such periods. The results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

The selected consolidated financial data of Gray should be read in conjunction with Gray's annual report on Form 10-K for the year ended December 31, 1998 and quarterly report on Form 10-Q for the quarter ended June 30, 1999, which are incorporated by reference in this proxy statement/prospectus.

IN THOUSANDS EXCEPT PER SHARE DATA

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1994(1)	1995(2)	1996(3)	1997(4)	1998(5)	1998	1999
	(UNAUDITED)						
STATEMENT OF INCOME DATA:							
Net revenues:							
Broadcasting.....	\$22,826	\$36,750	\$ 54,981	\$ 72,301	\$ 91,007	\$ 42,201	\$ 44,306
Publishing.....	13,692	21,866	22,845	24,536	29,330	13,917	17,558
Paging.....	--	--	1,479	6,711	8,553	3,925	4,557
Total net revenues.....	36,518	58,616	79,305	103,548	128,890	60,043	66,421
Expenses:							
Broadcasting.....	14,864	23,202	32,437	41,967	52,967	24,780	26,673
Publishing.....	11,198	20,016	17,949	19,754	24,197	11,441	13,710
Paging.....	--	--	1,078	4,051	5,618	2,583	3,238
Corporate and administrative.....	1,959	2,258	3,219	2,528	3,063	1,317	1,687
Depreciation.....	1,745	2,633	4,078	7,800	9,691	4,176	5,773
Amortization of intangible assets.....	396	1,326	3,585	6,718	8,426	3,667	5,346
Non-cash compensation paid in common stock...	80	2,321	880	--	--	--	--
	30,242	51,756	63,226	82,818	103,962	47,964	56,427
	6,276	6,860	16,079	20,730	24,928	12,079	9,994
Gain on disposition of television station.....	--	--	5,671	--	70,572	--	--
Miscellaneous income and (expense).....	189	143	33	(31)	(242)	(314)	456
	6,465	7,003	21,783	20,699	95,258	11,765	10,450
Interest expense.....	1,923	5,438	11,689	21,861	25,455	11,967	13,775
Income (loss) before income taxes and extraordinary charge.....	4,542	1,565	10,094	(1,162)	69,803	(202)	(3,325)
Federal and state income taxes.....	1,776	634	4,416	240	28,144	443	(684)
Extraordinary charge on extinguishment of debt, net of tax benefit of \$2,157.....	--	--	3,159	--	--	--	--
Net income (loss).....	2,766	931	2,519	(1,402)	41,659	(645)	(2,641)
Preferred dividends.....	--	--	377	1,410	1,318	718	505
Net income (loss) available to common stockholders...	\$ 2,766	\$ 931	\$ 2,142	\$ (2,812)	\$ 40,341	\$ (1,363)	\$ (3,146)
Average outstanding common shares:							
Basic.....	7,034	6,531	8,098	11,853	11,923	11,899	11,961
Diluted.....	7,034	6,722	8,438	11,853	12,404	11,899	11,961
Net income (loss) per share available to common stockholders:							
Basic.....	\$ 0.39	\$ 0.14	\$ 0.26	\$ (0.24)	\$ 3.38	\$ (0.11)	\$ (0.26)
Diluted.....	\$ 0.39	\$ 0.14	\$ 0.25	\$ (0.24)	\$ 3.25	\$ (0.11)	\$ (0.26)
BALANCE SHEET DATA AT END OF PERIOD:							
Working capital (deficiency).....	\$ 1,075	\$ (222)	\$ (158)	\$ 10,089	\$ 10,249	\$ 9,949	\$ 15,022
Total assets.....	68,789	78,240	298,664	345,051	468,974	343,683	480,828
Total debt.....	52,940	54,324	173,368	227,076	270,655	226,901	291,672
Total stockholders equity.....	\$ 5,001	\$ 8,986	\$ 95,226	\$ 92,295	\$126,703	\$ 91,669	\$123,183

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- (1) Reflects the operating results of WKYT-TV, WYMT-TV and The Rockdale Citizen as of their respective acquisition dates.
 - (2) Reflects the operating results of The Gwinnett Post-Tribune as of its date of acquisition.
 - (3) Reflects the operating results of WRDW-TV, WCTV-TV, WVLT-TV, a satellite uplink and production business and a communications and paging business as of their respective acquisition dates. Also reflects the sale of KTVE Inc., as of its date of disposition. Gray also incurred an extraordinary charge in connection with the early extinguishment of debt.
 - (4) Reflects the operating results of WITN-TV and Gulflink Communications, Inc., as of their respective acquisition dates.
 - (5) Reflects the operating results of Busse Broadcasting Corporation as of its date of acquisition. Also reflects the sale of WALB-TV as of its date of disposition.

SELECTED FINANCIAL INFORMATION OF KWTX

The following selected financial data for, and as of the end of, each of the years in the five-year period ended December 31, 1998 are derived from the financial statements of KWTX. The financial statements as of and for the year ended December 31, 1998 have been audited by Pattillo, Brown & Hill, LLP, independent auditors. The financial statements as of December 31, 1997 and for the years ended December 31, 1996 and 1997 were compiled by Pattillo, Brown & Hill, LLP, independent auditors. These financial statements and the auditors' report thereon are included elsewhere in this proxy statement/prospectus. The selected financial data as of June 30, 1998 and 1999 and for the six month periods ended June 30, 1998 and 1999 are derived from the unaudited condensed financial statements of KWTX included elsewhere in this proxy statement/prospectus which, in the opinion of management of KWTX, include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the data for such periods. The results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

The selected financial data of KWTX should be read in conjunction with KWTX's audited financial statements and related notes for the year ended December 31, 1998 and the unaudited financial statements and related notes for the years ended December 31, 1996 and 1997 and the six months ended June 30, 1998 and 1999, included elsewhere in this proxy statement/prospectus.

IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1994 (UNAUDITED)	1995 (UNAUDITED)	1996 (UNAUDITED)	1997 (UNAUDITED)	1998 (AUDITED)	1998 (UNAUDITED)	1999 (UNAUDITED)
STATEMENT OF INCOME DATA:							
Net revenues.....	\$ 8,215	\$ 8,797	\$ 9,590	\$ 8,796	\$ 9,222	\$ 4,290	\$ 4,639
Expenses:							
Broadcasting.....	5,772	5,968	6,260	5,550	5,507	2,700	2,780
Depreciation.....	418	463	553	495	607	288	336
Total operating expenses...	6,190	6,431	6,813	6,045	6,114	2,988	3,116
Operating income.....	2,025	2,366	2,777	2,751	3,108	1,302	1,523
Miscellaneous income.....	745	855	1,196	1,281	1,601	676	587
Income before income taxes.....	2,770	3,221	3,973	4,032	4,709	1,978	2,110
Federal and state income taxes...	838	1,002	1,205	1,305	1,388	543	652
Gain on disposition of radio station, net.....	--	--	2,392	--	--	--	--
Net income.....	\$ 1,932	\$ 2,219	\$ 5,160	\$ 2,727	\$ 3,321	\$ 1,435	\$ 1,458
Average outstanding common shares:							
Basic and diluted.....	1,550	1,550	1,550	1,550	1,550	1,550	1,550
Net income per share of common stock:							
Basic and diluted	\$1,246.45	\$1,431.62	\$3,329.35	\$1,759.09	\$2,142.41	\$925.92	\$940.34
BALANCE SHEET DATA AT END OF PERIOD:							
Working capital.....	\$ 4,857	\$ 5,351	\$ 9,655	\$ 7,070	\$ 7,888	\$ 6,830	\$ 7,322
Total assets.....	13,303	14,394	19,968	17,621	19,319	17,270	17,956
Total stockholders equity.....	\$ 11,538	\$ 12,517	\$ 17,057	\$ 15,527	\$ 17,298	\$15,722	\$16,586

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF KWTX

INTRODUCTION

The following analysis of the financial condition and results of operations of KWTX should be read in conjunction with KWTX's audited financial statements and related notes for the year ended December 31, 1998 and the unaudited financial statements and related notes for the years ended December 31, 1996 and 1997 and the six months ended June 30, 1998 and 1999.

In November 1996, KWTX sold all of the assets and operations of radio stations KWTX-AM and KWTX-FM to a third party resulting in a pre-tax gain of \$3.6 million. These were the only radio broadcasting stations operated by KWTX.

The operating revenues of KWTX for 1998 and 1997 were derived from broadcast advertising revenues and, to a much lesser extent, from compensation paid by the networks to KWTX for broadcasting network programming. In addition, KWTX obtains revenue from other incidental services such as the production of television commercials. The 1996 operating revenues also include advertising revenues from the radio stations that were sold in November of that year.

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

Most broadcast advertising contracts are short-term and generally run only for a few weeks. Approximately 47% of the net revenues of KWTX for the year ended December 31, 1998 were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts. The remainder represents primarily national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising 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 consumer advertising in the spring and retail advertising in the period leading up to and including the winter 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.

KWTX's primary operating expenses are programming costs, employee compensation and related benefits and programming costs. In addition, broadcasting operations incur overhead expenses, such as maintenance, supplies, insurance, rent and utilities.

BROADCASTING REVENUES

Set forth below are the principal types of broadcasting revenues earned by KWTX for the periods indicated and the percentage contribution of each of the revenues (dollars in thousands):

	YEAR ENDED DECEMBER 31,						SIX MONTHS ENDED JUNE 30,			
	1996		1997		1998		1998		1999	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Net revenues:										
Local.....	\$3,696	38.54%	\$4,097	46.58%	\$4,293	46.56%	\$1,927	44.92%	\$2,179	46.97%
National.....	2,851	29.73	3,104	35.29	2,955	32.04	1,545	36.01	1,659	35.76
Network										
compensation.....	1,480	15.43	1,500	17.05	1,439	15.60	693	16.15	755	16.28
Political.....	311	3.24	22	.25	452	4.90	77	1.79	5	0.11
Radio.....	1,123	11.71	--	--	--	--	--	--	--	--
Other.....	129	1.35	73	.83	83	.90	48	1.14	41	0.88
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total net										
revenue.....	\$9,590	100.00%	\$8,796	100.00%	\$9,222	100.00%	\$4,290	100.00%	\$4,639	100.00%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Net revenue increased \$349,000, or 8.1%, from \$4.3 million to \$4.6 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998. This increase reflected an increase in net local advertising sales of approximately \$252,000, due to increased advertiser demand for commercial time. Political net revenue decreased approximately \$72,000 between the six months ended June 30, 1999 and 1998 reflecting a decrease in political announcements associated with local elections. In addition, network compensation increased approximately \$62,000 between the six months ended June 30, 1999 and 1998. During the 1998 period, the network did not compensate its affiliates for carrying the Olympic broadcasts. Net national revenues increased approximately \$114,000 between the six months ended June 30, 1999 and 1998, reflecting increased demand for commercial time by national advertisers.

Operating costs and expenses increased \$128,000, or 4.3%, from \$3.0 million to \$3.1 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998. The increase primarily reflected additional charges of approximately \$38,000 for programming and \$50,000 for increased sales salaries.

Income from operations increased \$221,000, or 17.0%, from \$1.3 million to \$1.5 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998 reflecting the net effect of the increased revenue and expenses both discussed above.

Miscellaneous income decreased \$89,000, or 13.2%, from \$676,000 to \$587,000 for the six months ended June 30, 1999 compared to the six months ended June 30, 1998 reflecting non-recurring miscellaneous income from the 1998 period.

Federal income tax expense for the six months ended June 30, 1999 and 1998 generally reflected KWTX's application of a 34% federal tax rate to pre-tax income. The pre-tax income is adjusted for the deduction of state franchise taxes, an 80% exclusion on income from the Brazos equity investment and other items calculating the federal income tax expense.

Net earnings increased \$23,000, or 1.6%, from \$1,435,000 to \$1,458,000 for the six months ended June 30, 1999 compared to the six months ended June 30, 1998.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net revenue increased \$426,000, or 4.8%, from \$8.8 million to \$9.2 million for the year ended December 31, 1998 compared to the year ended December 31, 1997. This increase reflected an increase of \$430,000 in net political revenue to \$452,000 in 1998 from \$22,000 in 1997. Political revenue is generally cyclical and coincides with the general election cycle during even numbered years. Net local revenue increased by \$196,000 from \$4.1 million in 1997 to \$4.3 million in 1998, reflecting a general increase in local sales. Net national revenue decreased by \$149,000 from \$3.1 million in 1998 to \$3.0 million in 1997, reflecting a decrease in national advertising spots to allow for increased political advertising. Network compensation decreased \$61,000 from 1997 to 1998 reflecting the station's share of CBS's network wide reduction in compensation due to the network's acquisition of broadcast rights for NFL football.

Income from operations increased \$357,000, or 13.0%, from \$2.8 million in 1997 to \$3.1 million in 1998, reflecting the increased revenue discussed above.

Miscellaneous income increased \$321,000, or 25.1%, from \$1.3 million in 1997 to \$1.6 million in 1998. The increase was partially attributable to an increase of \$109,000 in the income from KWTX's 50% interest in Brazos reflecting Brazos' 1998 financial performance relative to 1997. In addition, other income increased \$177,000 between 1997 and 1998, reflecting a gain on the sale of fixed assets in 1998.

Federal income tax expense for 1998 and 1997 generally reflected KWTX's application of a 34% federal tax rate to pre tax income. The pre-tax income is adjusted for the deduction of state franchise tax, an 80% exclusion on income from the Brazos equity investment and other items in calculating the federal income tax expense.

Net earnings increased \$594,000, or 21.8%, from \$2.7 million in 1997 to \$3.3 million in 1998.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net revenue decreased \$794,000, or 8.3%, from \$9.6 million in 1996 to \$8.8 million in 1997. This decrease was attributable to the sale of KWTX's radio stations in November 1996. The sale of the radio stations decreased net revenue by \$1.1 million for 1997. This decrease was partially offset by increases in television broadcasting net revenues. Net political revenue decreased \$289,000, or 93%, from \$311,000 in 1996 to \$22,000 in 1997 reflecting the "off" year of the biennial election cycle. Net local revenue increased \$401,000 from \$3.7 million in 1996 to \$4.1 million in 1997 reflecting an overall sales increase. Net national revenue increased \$253,000 from \$2.8 million in 1996 to \$3.1 million in 1997 reflecting an increase in national spots sold due to decreased local political advertising.

Operating costs and expenses decreased \$768,000, or 11.3%, from \$6.8 million in 1996 to \$6.0 million in 1997. The decrease reflected the sale of the radio operations in November 1996. This sale reduced 1997 expenses by approximately \$1.1 million. Increases in television operating expenses offset, in part, the reduction of expenses due to the sale of the radio stations.

Miscellaneous income increased \$85,000, or 7.1%, from \$1.2 million in 1996 to \$1.3 million in 1997. The increase was attributable to an increase of \$116,000 in the income from KWTX's 50% interest in Brazos reflecting Brazos' financial performance during 1997 compared to 1996.

Federal income tax expense for 1997 and 1996 generally reflected KWTX's application of a 34% federal tax rate to pre-tax income. Pre-tax income was adjusted for the deduction of state franchise taxes, an 80% exclusion on income from the Brazos equity investment and other items in calculating the federal income tax expense.

Net earnings decreased \$2.4 million, or 47.2%, from \$5.2 million in 1996 to \$2.7 million in 1997. The 1996 net earnings included a net of tax gain of \$2.4 million relating to the discontinuance and disposition of KWTX's radio stations.

LIQUIDITY AND CAPITAL RESOURCES

KWTX's working capital approximated \$9.7 million, \$7.1 million, \$7.8 million and \$7.3 million at December 31, 1996, 1997, 1998 and June 30, 1999, respectively. KWTX's cash provided from operations was approximately \$6.2 million, \$1.4 million, \$3.2 million and \$1.7 million in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively. Management of KWTX believes that current cash balances and cash flows from operations will be adequate to provide for KWTX's capital expenditures, cash dividends and working capital requirements respectively.

KWTX used cash for capital expenditures in the amount of \$369,000, \$911,000, \$1.3 million, and \$414,000 in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively.

KWTX paid dividends of \$620,000, \$4.3 million, \$1.6 million and \$2.2 million in 1996, 1997, 1998 and during the six months ended June 30, 1999, respectively. The 1997 dividends reflect, in part, a special dividend in the amount of the net proceeds from the sale of KWTX's radio stations which were sold in November 1996.

KWTX regularly enters into program contracts for the right to broadcast television programs produced by others and programming 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 June 30, 1999, payments on program license liabilities due in 1999, which will be paid with cash from operations, were approximately \$20,000.

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

YEAR 2000 ISSUE

The problems created by systems that are unable to interpret dates accurately after December 31, 1999 is referred to as the "Year 2000 Issue." Many software programs have historically categorized the "year" in a two-digit format rather than a four-digit format. As a result, those computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. The Year 2000 Issue creates potential risks for KWTX, including potential problems in KWTX's Information Technology and non-Information Technology systems. The Year 2000 Issue could cause a system failure, miscalculations or disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. KWTX may also be exposed to risks from third parties who fail to adequately address their own Year 2000 Issue.

KWTX has implemented a multiphase program designed to address the Year 2000 Issue. Each phase of this program and its state of completion are described below:

Assessment: This phase of the program includes the identification of KWTX's IT and non-IT systems. After these systems have been identified, they are evaluated to determine whether they will correctly recognize dates after December 31, 1999 ("Year 2000 Compliant"). If it is determined that they are not Year 2000 Compliant, they are replaced or modified in the remediation phase of the program. KWTX's systems are non-proprietary. KWTX is in the process of obtaining from each system vendor a written or oral representation as to each significant system's status of compliance. KWTX has commenced an ongoing process of contacting suppliers and other key third parties to assess their Year 2000 Compliance status. It appears that all of these third parties are currently Year 2000 Compliant or they plan to be Year 2000 Compliant prior to December 31, 1999. This phase is substantially complete and KWTX has identified the majority of the systems that need to be replaced.

Remediation: For those systems which are not Year 2000 Compliant, a plan is derived to make the systems Year 2000 Compliant. These solutions have included modification or replacement of existing systems. The remediation phase is approximately 85% complete.

Testing: Test remediated systems to assure normal function when placed in their original operating environment and further test for Year 2000 Compliance. The Testing phase of the program is approximately 85% complete and KWTX anticipates that it will be completed by October 1, 1999.

Contingency: As a result of KWTX's Year 2000 Compliance program, KWTX does not believe that it has significant risk resulting from this issue. However, KWTX is in the process of developing contingency plans for the possibility that one of its systems or one of a third party's systems may not be Year 2000 Compliant.

KWTX does not presently believe that the estimated total Year 2000 project cost will exceed \$15,000. Most of this cost will be realized over the estimated useful lives of the new hardware and software; however, any third party consulting fees would be expended in the period the services are rendered. To date, KWTX has identified several minor systems that are not Year 2000 Compliant and these systems are in the process of being replaced. However, KWTX has not incurred significant expenses associated with the Year 2000 Issue. As of December 31, 1998, no IT projects have been deferred due to KWTX's efforts related to the Year 2000 Issue.

The costs of the project and the date on which KWTX believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

SELECTED FINANCIAL INFORMATION OF BRAZOS

The following table sets forth selected financial data for, and as of the end of, each of the years in the five-year period ended December 31, 1998 are derived from the financial statements of Brazos. The financial statements as of and for the year ended December 31, 1998 have been audited by Pattillo, Brown & Hill, LLP, independent auditors. The financial statements as of December 31, 1997 and for the years ended December 31, 1996 and 1997 were compiled by Pattillo, Brown & Hill, LLP, independent auditors. These financial statements and the auditor's report thereon are included elsewhere in this proxy statement/prospectus. The selected financial data as of June 30, 1998 and 1999 and for the six-month periods ended June 30, 1998 and 1999 are derived from the unaudited condensed financial statements of Brazos included elsewhere in this proxy statement/prospectus which, in the opinion of management of Brazos, include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the data for such periods. The results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

The selected financial data of Brazos should be read in conjunction with Brazos' audited financial statements and related notes for the year ended December 31, 1998 and the unaudited financial statements and related notes for the years ended December 31, 1996 and 1997 and the six months ended June 30, 1998 and 1999, included elsewhere in this proxy statement/prospectus.

IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1997	1998	1998	1999
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(AUDITED)	(UNAUDITED)	(UNAUDITED)
STATEMENT OF INCOME DATA:							
Net revenues.....	\$ 5,018	\$ 5,201	\$ 6,146	\$ 6,624	\$ 7,301	\$ 3,509	\$ 3,357
Expenses:							
Broadcasting.....	3,024	3,228	3,477	3,719	4,021	1,983	2,012
Depreciation.....	428	469	424	381	392	196	192
Total operating expenses....	3,452	3,697	3,901	4,100	4,413	2,179	2,204
Operating income.....	1,566	1,504	2,245	2,524	2,888	1,330	1,153
Miscellaneous income.....	135	238	198	287	263	149	141
Income before income taxes.....	1,701	1,742	2,443	2,811	3,151	1,479	1,294
Federal and state income taxes.....	611	656	875	1,012	1,135	502	449
Net income.....	\$ 1,090	\$ 1,086	\$ 1,568	\$ 1,799	\$ 2,016	\$ 977	\$ 845
Average outstanding common shares:							
Basic and Diluted.....	500	500	500	500	500	500	500
Net income per share of common stock:							
Basic and Diluted.....	\$2,179.52	\$2,171.55	\$3,135.42	\$3,598.63	\$4,032.99	\$1,954.09	\$1,689.35
BALANCE SHEET DATA AT END OF PERIOD:							
Working capital.....	\$ 4,087	\$ 4,589	\$ 5,385	\$ 6,548	\$ 7,845	\$ 6,601	\$ 7,197
Total assets.....	7,006	7,489	8,517	9,842	10,914	9,543	9,735
Total stockholders equity.....	\$ 5,702	\$ 6,288	\$ 7,280	\$ 8,580	\$ 9,596	\$ 8,557	\$ 8,941

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF BRAZOS

INTRODUCTION

The following analysis of the financial condition and results of operations of Brazos should be read in conjunction with Brazos' audited financial statements and related notes for the year ended December 31, 1998 and the unaudited financial statements and related notes for the years ended December 31, 1996 and 1997 and the six months ended June 30, 1998 and 1999.

The operating revenues of Brazos are derived from broadcast advertising revenues and, to a lesser extent, compensation paid by the networks to Brazos for broadcasting network programming. In addition, Brazos obtains revenue from other incidental services, such as the production of television commercials.

In Brazos' 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 A.C. Nielsen Media Research. In addition, broadcast advertising rates are affected by the number of advertisers competing for the available time, the size and demographic makeup of the market served by the station and the availability of alternative advertising media in the market area. Broadcast advertising rates are the highest during the most desirable viewing hours, with corresponding reductions during other hours. The ratings of a local station affiliated with a major network can be affected by ratings of network programming.

Most broadcast advertising contracts are short-term and generally run only for a few weeks. Approximately 42% of the net revenues of Brazos for the year ended December 31, 1998 were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts. The remainder represents primarily national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising 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 consumer advertising in the spring and retail advertising in the period leading up to and including the winter 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.

Brazos' primary operating expenses are employee compensation and related benefits and programming costs. In addition, broadcasting operations incur overhead expenses, such as maintenance, supplies, insurance, rent and utilities.

BROADCASTING REVENUES

Set forth below are the principal types of broadcasting revenues earned by Brazos for the periods indicated and the percentage contribution of each of the revenues (dollars in thousands):

	YEAR ENDED DECEMBER 31,						SIX MONTHS ENDED JUNE 30,			
	1996		1997		1998		1998		1999	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Net revenues:										
Local.....	\$3,038	49.43%	\$2,904	43.84%	3,053	41.82%	1,505	42.89%	\$1,661	49.48
National.....	2,246	36.54	3,006	45.38	3,255	44.58	1,647	46.94	1,403	41.79
Network compensation.....	566	9.21	573	8.65	539	7.38	262	7.47	287	8.55
Political.....	195	3.17	43	.65	360	4.93	95	2.70	6	0.18
Production and other.....	101	1.65	98	1.48	94	1.29	--	--	--	--
Total net revenue....	<u>\$6,146</u>	<u>100.00%</u>	<u>\$6,624</u>	<u>100.00%</u>	<u>\$7,301</u>	<u>100.00%</u>	<u>\$3,509</u>	<u>100.00%</u>	<u>\$3,357</u>	<u>100.00%</u>

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Net revenue decreased \$153,000, or 4.3%, from \$3.5 million to \$3.4 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998. This decrease reflected an increase in net local advertising sales of approximately \$156,000 offset, in part, by a decrease in national advertising sales of \$244,000. Political net revenue decreased approximately \$89,000 between the six months ended June 30, 1999 and 1998 reflecting the "off year" of the biannual election cycle. Network compensation increased approximately \$25,000 between the six months ended June 30, 1998 and 1999. During the 1998 period the network did not compensate its affiliates for carrying the Olympic broadcasts.

Operating costs and expenses increased \$25,000, or 1.1%, from \$2,179,000 to \$2,204,000 for the six months ended June 30, 1999 compared to the six months ended June 30, 1998.

Income from operations decreased \$177,000, or 13.3%, from \$1.3 million to \$1.1 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998, reflecting the net effect of the decreased revenue and increased expenses both discussed above.

Miscellaneous income decreased \$8,000, or 5.4%, from \$149,000 to \$141,000 for the six months ended June 30, 1999 compared to the six months ended June 30, 1998 reflecting decreased interest income from cash investments.

Federal income tax expense for the six months ended June 30, 1999 and 1998 generally reflected Brazos' application of a 34% federal tax rate to pre-tax income. The pre-tax income is adjusted for the deduction of state franchise taxes.

Net earnings decreased \$132,000, or 13.5%, from \$977,000 to \$845,000 for the six months ended June 30, 1999 compared to the six months ended June 30, 1998.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net revenue increased \$677,000, or 10.2%, from \$6.6 million to \$7.3 million for the year ended December 31, 1998 compared to the year ended December 31, 1997. This increase reflected an increase of \$317,000 in net political revenue to \$360,000 for 1998 from \$43,000 for 1997. Net local revenue increased \$149,000 from \$2.9 million in 1997 to \$3.1 million in 1998, reflecting a normal increase in sales. Net national revenue increased \$249,000 from \$3.0 million in 1997 to \$3.3 million in 1998, reflecting a general sales increase due to rising advertising prices. Network compensation decreased approximately \$34,000 in 1998, reflecting the station's share of CBS's network wide reduction in compensation due to the network's acquisition of broadcast rights for NFL football.

Operating costs and expenses increased \$313,000, or 7.6%, from \$4.1 million in 1997 to \$4.4 million in 1998, reflecting, in part, increased general and administrative expenses of \$142,000, and increased sales compensation costs of \$44,000. In addition, management bonus expense increased \$59,000 between the fiscal years.

Income from operations increased \$364,000, or 14.4%, from \$2.5 million in 1997 to \$2.9 million in 1998, reflecting the net effect of the changes in revenue and expenses discussed above.

Miscellaneous income decreased \$24,000, or 8.4%, from \$287,000 in 1997 to \$263,000 in 1998. The decrease reflected a loss on the disposal of fixed assets recognized in 1998 versus a gain recognized in 1997.

Federal income tax expense for 1998 and 1997 generally reflected the application of a 34% federal tax rate to pre tax income. The pre-tax income is adjusted for the deduction of state franchise taxes.

Net earnings increased \$217,000, or 12.1%, from \$1.8 million in 1997 to \$2.0 million in 1998.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net revenue increased \$478,000, or 7.8%, from \$6.1 million in 1996 to \$6.6 million in 1997. Net political revenue decreased \$152,000, or 77.9%, from \$195,000 in 1996 to \$43,000 in 1997 reflecting the "off" year of the biennial election cycle. Net local revenue decreased by \$134,000 from \$3.0 million in 1996 to \$2.9 million in 1997 reflecting a shift from local sales to national sales. Net national revenue increased by \$760,000 from \$2.2 million in 1996 to \$3.0 million in 1997 reflecting increased national advertising space due to decreased political and local revenue as well as a general increase in sales.

Operating costs and expenses increased \$199,000, or 5.1%, from \$3.9 million in 1996 to \$4.1 million in 1997. The increase reflects, in part, a \$100,000 increase in news costs reflecting increased staff and news programming and a \$70,000 increase in general and administrative expenses. Management bonus expense increased \$23,000, or 5.7%, from \$403,000 in 1996 to \$426,000 in 1997, reflecting increased performance compensation based on the improved operating results for the year ended December 31, 1997.

Income from operations increased \$279,000, or 12.4%, from \$2.2 million in 1996 to \$2.5 million in 1997, reflecting the net effect of the changes in revenue and expenses discussed above.

Miscellaneous income increased \$89,000, or 44.9%, from \$198,000 in 1996 to \$287,000 in 1997. The increase reflected a gain recognized in 1997 on the disposal of fixed assets verses a loss recognized in 1996.

Federal income tax expense for the years ended December 31, 1997 and 1996 generally reflected the application of a 34% federal tax rate to pre tax income. The pre tax income is adjusted for the deduction of state franchise taxes.

Net earnings increased \$232,000, or 14.8%, from \$1.6 million in 1997 to \$1.8 million in 1996.

LIQUIDITY AND CAPITAL RESOURCES

Brazos' working capital was approximately \$5.4 million, \$6.5 million, \$7.8 million and \$7.2 million at December 31, 1996, 1997, 1998 and June 30, 1999, respectively. Brazos' cash provided from operations approximated \$1.7 million, \$1.8 million, \$2.4 million and \$778,000 in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively. Management of Brazos believes that current cash balances and cash flows from operations will be adequate to provide for Brazos' capital expenditures, cash dividends and working capital requirements respectively.

Brazos used cash for capital expenditures in the amount of \$392,000, \$482,000, \$154,000 and \$127,000 in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively.

Brazos paid dividends of \$575,000, \$500,000, \$1 million and \$1.5 million in 1996, 1997, 1998 and during the six months ended June 30, 1999, respectively.

Brazos regularly enters into program contracts for the right to broadcast television programs produced by others and programming 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 June 30, 1999, payments on program license liabilities due in 1999, which will be paid with cash from operations, were approximately \$20,000.

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

YEAR 2000 ISSUE

The problems created by systems that are unable to interpret dates accurately after December 31, 1999 is referred to as the "Year 2000 Issue." Many software programs have historically categorized the "year" in a two-digit format rather than a four-digit format. As a result, those computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. The Year 2000 Issue creates potential risks for Brazos, including potential problems in Brazos' IT and non-IT systems. The Year 2000 Issue could cause a system failure, miscalculations or disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. Brazos may also be exposed to risks from third parties who fail to adequately address their own Year 2000 Issue.

Brazos has implemented a multiphase program designed to address the Year 2000 Issue. Each phase of this program and its state of completion is described below:

Assessment: This phase of the program includes the identification of Brazos' IT and non-IT systems. After these systems have been identified, they are evaluated to determine whether they will correctly recognize dates after December 31, 1999 ("Year 2000 Compliant"). If it is determined that they are not Year 2000 Compliant, they are replaced or modified in the remediation phase of the program. Brazos' systems are non-proprietary. Brazos is in the process of obtaining from each system vendor a written or oral representation as to each significant system's status of compliance. Brazos has commenced an ongoing process of contacting suppliers and other key third parties to assess their Year 2000 Compliance status. It appears that all of these third parties are currently Year 2000 Compliant or they plan to be Year 2000 Compliant prior to December 31, 1999. This phase is substantially complete and Brazos has identified the majority of the systems that need to be replaced.

Remediation: For those systems which are not Year 2000 Compliant, a plan is derived to make the systems Year 2000 Compliant. These solutions have included modification or replacement of existing systems. The remediation phase is approximately 60% complete.

Testing: Test remediated systems to assure normal function when placed in their original operating environment and further test for Year 2000 Compliance. The Testing phase of the program is approximately 60% complete and Brazos anticipates that it will be completed by October 1, 1999.

Contingency: As a result of Brazos' Year 2000 Compliance program, Brazos does not believe that it has significant risk resulting from this issue. However, Brazos is in the process of developing contingency plans for the possibility that one of its systems or one of a third party's systems may not be Year 2000 Compliant.

Brazos does not presently believe that the estimated total Year 2000 project cost will exceed \$18,000. Most of this cost will be realized over the estimated useful lives of the new hardware and software; however, any third party consulting fees would be expended in the period the services are rendered. To date, Brazos has identified several minor systems that are not Year 2000 Compliant and these systems are in the process of being replaced. However, Brazos has not incurred significant expenses associated with the Year 2000 Issue. As of December 31, 1998, no IT projects have been deferred due to Brazos' efforts related to the Year 2000 Issue.

The costs of the project and the date on which Brazos believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

SELECTED COMBINED FINANCIAL INFORMATION OF KXII

The following table sets forth selected combined financial data for, and as of the end of, each of the years in the five-year period ended December 31, 1998 are derived from the combined financial statements of KXII. The combined financial statements as of and for the year ended December 31, 1998, have been audited by Jaynes, Reitmeier, Boyd & Therrell, P.C., independent auditors. The combined financial statements as of December 31, 1997 and for the years December 31, 1996 and 1997 were compiled by Jaynes, Reitmeier, Boyd & Therrell, P.C. These combined financial statements and the auditor's report thereon are included elsewhere in this proxy statement/prospectus. The selected combined financial data as of June 30, 1998 and 1999 and for the six-month periods ended June 30, 1998 and 1999 are derived from the unaudited condensed combined financial statements of KXII included elsewhere in the proxy statement/prospectus which, in the opinion of management of KXII, include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the data for such periods. The combined results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

The selected combined financial data of KXII should be read in conjunction with KXII's audited combined financial statements and related notes for the year ended December 31, 1998 and the unaudited combined financial statements and related notes thereto for the years ended December 31, 1996 and 1997 and the six months ended June 30, 1998 and 1999, included elsewhere in this proxy statement/prospectus.

IN THOUSANDS

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1994 (UNAUDITED)	1995 (UNAUDITED)	1996 (UNAUDITED)	1997 (UNAUDITED)	1998 (AUDITED)	1998 (UNAUDITED)	1999 (UNAUDITED)
STATEMENT OF INCOME DATA:							
Net revenues.....	\$4,426	\$4,936	\$5,604	\$5,604	\$6,102	\$2,835	\$3,209
Expenses:							
Broadcasting.....	2,864	3,102	3,502	3,514	3,638	1,776	1,846
Depreciation.....	379	377	426	409	442	174	198
Amortization of intangible assets.....	106	106	106	106	106	53	53
Total operating expenses.....	3,349	3,585	4,034	4,029	4,186	2,003	2,097
Operating income.....	1,077	1,351	1,570	1,575	1,916	832	1,112
Miscellaneous income.....	--	7	2	7	33	--	90
Interest expense.....	496	492	497	478	472	234	232
Income before income taxes.....	581	866	1,075	1,104	1,477	598	970
State income taxes.....	24	36	29	21	36	13	4
Net income.....	\$ 557	\$ 830	\$1,046	\$1,083	\$1,441	\$ 585	\$ 966
	=====	=====	=====	=====	=====	=====	=====
BALANCE SHEET DATA AT END OF PERIOD:							
Working capital.....	\$ 270	\$ 363	\$ 904	\$ 978	\$1,790	\$ 935	\$1,839
Total assets.....	6,864	7,096	7,203	7,054	8,343	7,781	8,469
Total stockholders equity.....	\$ 910	\$1,354	\$1,844	\$1,976	\$2,946	\$2,205	\$3,289

Information with respect to basic and diluted average outstanding common shares and related income per share data has been omitted, because the selected combined financial information for KXII combines corporate and partnership entities. Accordingly share and per share data would not be meaningful.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF KXII

INTRODUCTION

The following analysis of the financial condition and results of operations of KXII should be read in conjunction with KXII's audited financial statements and related notes for the year ended December 31, 1998 and the unaudited financial statements and related notes for the years ended December 31, 1996 and 1997 and the six months ended June 30, 1998 and 1999.

The operating revenues of KXII are derived from broadcast advertising revenues and, to a lesser extent, compensation paid by the networks to KXII for broadcasting network programming. In addition, KXII obtains revenue from other incidental services, such as production of television commercials.

In KXII's operations, broadcast advertising is sold for placement either preceding or following a television station's network programming and within local and syndicated programming. Broadcast advertising is sold in time increments and is priced primarily on the basis of a program's popularity among the specific audience an advertiser desires to reach, as measured by Nielsen Media Research. 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 highest during the most desirable viewing hours, with corresponding reductions during other hours. The ratings of a local station affiliated with a major network can be affected by ratings of network programming.

Most broadcast advertising contracts are short-term and generally run only for a few weeks. Approximately 59% of the net revenues of KXII for the year ended December 31, 1998, were generated from local and regional advertising, which is sold primarily by a station's sales staff directly to local accounts. The remainder represents primarily national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising 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 consumer advertising in the spring and retail advertising in the period leading up to and including the winter 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.

KXII's primary operating expenses are programming costs, employee compensation and related benefits and programming costs. In addition, broadcasting operations incur overhead expenses, such as maintenance, supplies, insurance, rent and utilities.

BROADCASTING REVENUES

Set forth below are the principal types of broadcasting revenues earned by KXII for the periods indicated and the percentage contribution of each of the revenues (dollars in thousands):

	YEAR ENDED DECEMBER 31,						SIX MONTHS ENDED JUNE 30,			
	1996		1997		1998		1998		1999	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Net revenues:										
Local.....	\$3,194	57.01%	\$3,326	59.35%	\$3,631	59.50%	\$1,814	63.99%	\$2,022	63.01%
National.....	1,219	21.75	1,280	22.84	1,197	19.62	535	18.87	688	21.44
Network compensation.....	935	16.68	943	16.83	897	14.70	432	15.24	468	14.58
Political.....	179	3.19	3	0.05	327	5.36	--	--	--	--
Production and other.....	77	1.37	52	0.93	50	0.82	54	1.90	31	0.97
Total net revenue.....	\$5,604	100.0%	\$5,604	100.0%	\$6,102	100.0%	\$2,835	100.0%	\$3,209	100.0%

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Net revenue increased \$374,000, or 13.2%, from \$2.8 million to \$3.2 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998. This increase reflected an increase in net local and national advertising sales of approximately \$208,000 and \$153,000, respectively, due to increased advertiser demand for commercial time. Network compensation increased approximately \$36,000 from the six months ended June 30, 1998 to the six months ended June 30, 1999. During the 1998 period the network did not compensate its affiliates for carrying the Olympic broadcasts.

Income from operations increased \$280,000, or 33.7%, from \$832,000 to \$1.1 million for the six months ended June 30, 1999 compared to the six months ended June 30, 1998, reflecting increased revenue as discussed above.

Net earnings increased \$381,000, or 65.1%, from \$585,000 to \$966,000 for the six months ended June 30, 1999 compared to the six months ended June 30, 1998.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net revenue increased \$498,000, or 8.9%, from \$5.6 million to \$6.1 million for the year ended December 31, 1998 compared to the year ended December 31, 1997. This increase reflected an increase of \$324,000 in net political revenue to \$327,000 for 1998 from \$3,000 for 1997. Net local revenue increased \$305,000 from \$3.3 million in 1997 to \$3.6 million in 1998, reflecting a significant increase in the advertising budget for several local and regional advertisers in the KXII broadcasting area. Net national revenue decreased \$83,000 from \$1.2 million in 1997 to \$1.1 million in 1998, reflecting a national account which significantly reduced its advertising in KXII's broadcast area. Network compensation decreased approximately \$46,000 from \$943,000 in 1997 to \$897,000 in 1998 reflecting KXII's share of CBS's network-wide reduction in compensation due to the network's acquisition of broadcast rights for NFL football.

Income from operations increased \$341,000, or 21.6%, from \$1.6 million in 1997 to \$1.9 million in 1998, reflecting an increase in production salaries and broadcast rights expenses. In addition, management bonus expense increased \$30,000, or 34.9%, from

\$86,000 to \$116,000, reflecting increased performance compensation based on the improved operating results of KXII for 1998.

Net earnings increased \$358,000, or 33%, from \$1.1 million in 1997 to \$1.4 million in 1998.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net revenue was unchanged from 1996 to 1997. Net political revenue decreased \$176,000, or 98.3%, from \$179,000 in 1996 to \$3,000 in 1997, reflecting the "off" year of the biannual election cycle. Net local revenue increased by \$132,000 from \$3.2 million in 1996 to \$3.3 million in 1997, reflecting the addition of local sales staff and the focus of existing sales staff on new business development. Net national revenue increased by \$61,000 from \$1.2 million in 1996 to \$1.3 million in 1997, reflecting moderate increases in the KXII's advertising rates.

Net earnings increased \$37,000, or 3.5%, from \$1.0 million in 1996 to \$1.1 million in 1997.

LIQUIDITY AND CAPITAL RESOURCES

KXII's working capital was approximately \$904,000, \$978,000, \$1.8 million and \$1.8 million at December 31, 1996, 1997, 1998 and June 30, 1999, respectively. KXII's cash provided from operations approximated \$1.4 million, \$1.5 million, \$1.9 million, and \$1.0 million in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively. Management of KXII believes that current cash balances and cash flows from operations will be adequate to provide for KXII's capital expenditures, cash dividends and working capital requirements, respectively.

KXII had capital expenditures in the amount of \$313,000, \$405,000, \$418,000 and \$336,000 in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively.

KXII paid \$556,000, \$951,000, \$471,000 and \$622,590 in dividends in 1996, 1997, 1998 and the six months ended June 30, 1999, respectively.

KXII regularly enters into program contracts for the right to broadcast television programs produced by others and programming 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 June 30, 1999, payments on program license liabilities due in 1999, which will be paid with cash from operations, were approximately \$156,000.

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

YEAR 2000 ISSUE

The problems created by systems that are unable to interpret dates accurately after December 31, 1999 is referred to as the "Year 2000 Issue." Many software programs have historically categorized the "year" in a two-digit format rather than a four-digit format. As a result, those computer programs that have time-sensitive software may recognize a date

using "00" as the year 1900 rather than the year 2000. The Year 2000 Issue creates potential risks for KXII, including potential problems in KXII's IT and non-IT systems. The Year 2000 Issue could cause a system failure, miscalculations or disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. KXII may also be exposed to risks from third parties who fail to adequately address their own Year 2000 Issue.

KXII has implemented a multiphase program designed to address the Year 2000 Issue. Each phase of this program and its state of completion is described below:

Assessment: This phase of the program includes the identification of KXII's IT and non-IT systems. After these systems have been identified, they are evaluated to determine whether they will correctly recognize dates after December 31, 1999 ("Year 2000 Compliant"). If it is determined that they are not Year 2000 Compliant, they are replaced or modified in the remediation phase of the program. KXII's systems are non-proprietary. KXII is in the process of obtaining from each system vendor a written or oral representation as to each significant system's status of compliance. KXII has commenced an ongoing process of contacting suppliers and other key third parties to assess their Year 2000 Compliance status. It appears that all of these third parties are currently Year 2000 Compliant or they plan to be Year 2000 Compliant prior to December 31, 1999. This phase is substantially complete and KXII has identified the majority of the systems that need to be replaced.

Remediation: For those systems which are not Year 2000 Compliant, a plan is derived to make the systems Year 2000 Compliant. These solutions have included modification or replacement of existing systems. The remediation phase is 100% complete.

Testing: Test remediated systems to assure normal function when placed in their original operating environment and further test for Year 2000 Compliance. The Testing phase of the program is approximately 95% complete and KXII anticipates that it will be completed by August 31, 1999.

Contingency: As a result of KXII's Year 2000 Compliance program, KXII does not believe that it has significant risk resulting from this issue. However, KXII is in the process of developing contingency plans for the possibility that one of its systems or one of a third party's systems may not be Year 2000 Compliant.

PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following unaudited pro forma condensed combined financial statements of Gray give effect to the acquisitions of KWTX, Brazos and KXII and the related financing. In addition to reflecting these transactions, the statements of operations also reflect certain other recently completed transactions. The statement of operations for the six months ended June 30, 1999 reflects the acquisition of KWTX, Brazos and KXII, the related financing and the acquisition of The Goshen News as if these transactions had occurred on January 1, 1999. The statement of operations for the year ended December 31, 1998 reflects the acquisition of KWTX, Brazos and KXII, the related financing, the acquisition of The Goshen News, the acquisition of Busse Broadcasting Corporation and the divestiture of WALB-TV as if these transactions had occurred on January 1, 1998. The balance sheet as of June 30, 1999 reflects the acquisition of KWTX, Brazos and KXII and the related financing as if these transactions had occurred on June 30, 1999. The acquisitions of KWTX, Brazos, KXII, The Goshen News and Busse Broadcasting Corporation are reflected using the purchase method of accounting for business combinations.

Gray completed the acquisition of The Goshen News and Busse Broadcasting Corporation on March 1, 1999 and July 31, 1998, respectively. The divestiture of WALB-TV was completed on July 31, 1998.

The pro forma financial information is provided for comparative purposes only and does not purport to be indicative of the results that actually would have been obtained if the transactions set forth above had occurred as of the dates indicated or results that may be obtained in the future. The acquisition agreements with KWTX and Brazos provide that: (1) each shareholder of KWTX and Brazos may elect to receive up to 100% of his merger consideration, but must elect to receive at least 40% of his merger consideration, in shares of Gray class B common stock and (2) the number of shares of Gray class B common stock to be received by KWTX and Brazos shareholders will be dependent on the market price of Gray class B common stock at a specified time and for a specified period immediately preceding the closing date. The acquisition agreements for KWTX, Brazos and KXII also require Gray to increase the amount of the merger consideration to pay for certain specified net working capital accounts as of the closing date.

Accordingly, the pro forma financial statements are based on preliminary estimates of the number of shares of Gray class B common stock to be issued and their related value, indebtedness to be incurred and related financing terms, the amounts of the specified net working capital accounts of KWTX, Brazos and KXII as of the closing date, and transaction costs, all determined as of the closing date. Accordingly, the actual recording of these transactions are expected to differ from the pro forma financial statements.

GRAY COMMUNICATIONS SYSTEMS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 1999
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

STATEMENT OF OPERATIONS DATA	GRAY	ACQUISITION OF THE GOSHEN NEWS		COMPLETED TRANSACTION PRO FORMA COMBINED	KWTX BROADCASTING COMPANY HISTORICAL	BRAZOS BROADCASTING CO. HISTORICAL
		HISTORICAL	PRO FORMA ADJUSTMENTS			
OPERATING REVENUES:						
Broadcasting.....	\$44,306	\$ --	\$ --	\$44,306	\$4,639	\$3,356
Publishing.....	17,558	652	30(1)	18,240	--	--
Paging.....	4,557	--	--	4,557	--	--
	66,421	652	30	67,103	4,639	3,356
EXPENSES:						
Broadcasting.....	26,673	--	--	26,673	2,780	2,011
Publishing.....	13,710	621	(30)(1) (5)(2)	14,296	--	--
Paging.....	3,238	--	--	3,238	--	--
Corporate and administrative.....	1,687	--	--	1,687	--	--
Depreciation and amortization.....	11,119	62	103(3)	11,284	336	192
	56,427	683	68	57,178	3,116	2,203
Miscellaneous income (expense), net...	9,994 456	(31) 7	(38) 7(4)	9,925 470	1,523 587	1,153 141
Interest expense.....	10,450 13,775	(24) --	(31) 221(5)	10,395 13,996	2,110 --	1,294 --
Income (loss) before income taxes.....	(3,325)	(24)	(252)	(3,601)	2,110	1,294
Federal and state income taxes.....	(684)	--	(94)(6)	(778)	652	449
Net income (loss).....	(2,641)	(24)	(158)	(2,823)	1,458	845
Preferred dividends.....	505	--	--	505	--	--
Net income (loss) available to common stockholders.....	\$(3,146)	\$(24)	\$(158)	\$(3,328)	\$1,458	\$ 845
Average outstanding common shares -- basic and diluted.....	11,961			11,961		
Basic and diluted loss per common share.....	\$ (0.26)			\$ (0.28)		

STATEMENT OF OPERATIONS DATA	KXII BROADCASTERS, INC. KXII BROADCASTERS, LTD. COMBINED HISTORICAL		PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
OPERATING REVENUES:				
Broadcasting.....	\$3,209		\$ 225(7)	\$55,735
Publishing.....	--		--	18,240
Paging.....	--		--	4,557
	3,209		225	78,532
EXPENSES:				
Broadcasting.....	1,846		225(7) (690)(2)	32,845
Publishing.....	--		--	14,296
Paging.....	--		--	3,238
Corporate and administrative.....	--		--	1,687
Depreciation and amortization.....	251		1,934(3)	13,997
	2,097		1,469	66,063
Miscellaneous income (expense), net...	1,112 90		(1,244) (790)(4)	12,469 498
Interest expense.....	1,202 232		(2,034) (232)(8) 5,237(9)	12,967 19,233
Income (loss) before income taxes.....	970		(7,039)	(6,266)
Federal and state income taxes.....	4		(2,012)(6)	(1,685)
Net income (loss).....	966		(5,027)	(4,581)
Preferred dividends.....	--		--	505
Net income (loss) available to common stockholders.....	\$ 966		\$(5,027)	\$(5,086)

Average outstanding common shares --	=====	=====	=====
basic and diluted.....			15,131(10)
			=====
Basic and diluted loss per common			
share.....			\$ (0.34)(10)
			=====

GRAY COMMUNICATIONS SYSTEMS, INC.

STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 1999

- (1) Reflects the reclassification of certain revenue to conform to Gray's financial statement presentation.
- (2) Reflects elimination of certain historical related party rental expenses that Gray will not incur subsequent to the acquisition of The Goshen News since such rental expense was eliminated as part of the transaction. With respect to KWTX, Brazos and KXII, reflects elimination of historical corporate overhead expenses, including director's fees, certain management bonuses and other management fees paid to related parties whose involvement with the businesses will terminate at closing. Gray does not anticipate that it will incur such expenses subsequent to the respective acquisitions.
- (3) Reflects the increased depreciation and amortization charges associated with the allocation of the total consideration among the assets acquired and the liabilities assumed. Depreciation of property, plant and equipment is calculated using the straight-line method applied over the estimated useful lives of the assets. Such lives range from five to 35 years. Amortization of intangible assets, including FCC licenses, network affiliation agreements and goodwill, is calculated using the straight-line method over an estimated useful life of 40 years. Also, with respect to The Goshen News, a non-compete agreement with a value of \$1.5 million is being amortized using the straight-line method over its stated life of five years.
- (4) Reflects (a) adjustment of certain other historical expenses and interest income that Gray will not incur or does not anticipate it will earn subsequent to the acquisitions and (b) elimination of KWTX's income of \$442,000 derived from its equity investment in Brazos under the equity method.
- (5) Reflects interest expense on \$16.7 million of incremental indebtedness incurred in connection with the purchase of The Goshen News, assuming an effective interest rate of 8%.
- (6) Income tax benefits have been estimated assuming an effective tax rate of 34%. Gray is assumed to be in a net operating loss position on a combined pro forma basis.
- (7) Reflects reclassification of certain sales commission expenses to broadcasting expenses to conform to Gray's financial statement presentation.
- (8) Reflects the elimination of historical interest expense.
- (9) Reflects: (a) interest charges on the estimated \$100 million of newly issued indebtedness with an assumed effective interest rate of 8.8%; (b) amortization of an estimated \$1.8 million of deferred financing charges associated with the new indebtedness issued; (c) incremental interest due to an assumed increase in the effective interest rate of 1% on Gray's \$130.7 million term loan and revolving credit facility due to the increased overall leverage of Gray after completion of the acquisitions and (d) interest on an incremental \$1.6 million of borrowing under the revolving credit facility used to complete the financing of the acquisitions at an assumed effective interest rate of 8.3%. A 1/8% change in the effective interest rates

on variable rate debt paid by Gray would produce a corresponding change in Gray's interest expense of approximately \$145,000 for the six months ended June 30, 1999.

(10) The pro forma weighted average shares outstanding and loss per share assume that:

- the price of the Gray class B common stock as of the day immediately preceding the closing date of the acquisitions will be \$14.125 per share;
- KWTX and Brazos shareholders will receive 40% of the aggregate merger consideration in shares of Gray class B common stock; and
- a total of 3,170,000 shares of Gray class B common stock will be issued in the acquisitions of KWTX and Brazos.

The merger agreements provide that the shareholders of KWTX and Brazos may elect to receive up to 100% of their respective merger consideration in Gray class B common stock and that each shareholder of KWTX and Brazos must receive at least 40% of the aggregate consideration in shares of Gray class B common stock with the stock being valued as of the close of business on the day immediately preceding the closing date. Accordingly, the number of shares of Gray class B common stock to be issued can not be determined until the closing date of the acquisitions.

The following table illustrates the effect that the issuance of varying numbers of shares of Gray class B common stock in the acquisitions would have on Gray's pro forma basic and diluted loss per share for the six months ended June 30, 1999, based upon:

- varying assumptions as to the percentage of aggregate merger consideration such shareholders elect to receive in Gray class B common stocks; and
- varying assumptions as to the market value per share of Gray class B common stock as of the day immediately preceding the closing date of the acquisitions.

Weighted average basic and diluted loss per common share (rounded to the nearest cent):

AGGREGATE PERCENTAGE OF KWTX AND
BRAZOS MERGER CONSIDERATION TO BE
RECEIVED IN SHARES OF GRAY CLASS B
COMMON STOCK:

	40%	60%	80%	100%
Price per Share:				
	Loss Per Common Share			
\$15.....	\$(0.34)	\$(0.31)	\$(0.28)	\$(0.26)
\$14.125(a).....	(0.34)	(0.30)	(0.28)	(0.26)
\$14.....	(0.34)	(0.30)	(0.28)	(0.25)
\$13.....	(0.33)	(0.30)	(0.27)	(0.25)
\$12.....	(0.32)	(0.29)	(0.26)	(0.24)
\$11.....	(0.32)	(0.28)	(0.25)	(0.23)
\$10.....	(0.31)	(0.27)	(0.24)	(0.22)

- - - - -

(a) The closing price of Gray class B common stock on June 30, 1999

If the average price per share of Gray class B common stock during the 20 trading day period immediately preceding the closing date of the KWTX and Brazos acquisitions or the price of Gray class B common stock on the day immediately preceding the closing date is less than \$12 per share, then Gray at its option may pay the aggregate merger consideration for KWTX and Brazos in cash. Such amount would be \$95.5 million before the payment for any specified net working capital adjustments required under the acquisition agreements, transaction fees and related expenses.

Publishing.....	230(8)	27,852	--	--	--	--
Paging.....	--	5,618	--	--	--	--
Corporate and administrative.....	--	3,063	--	--	--	--
Depreciation and amortization.....	664(2)	21,592	607	392	548	3,868(2)
	-----	-----	-----	-----	-----	-----
	894	113,478	6,114	4,413	4,186	2,945
	-----	-----	-----	-----	-----	-----
	(664)	24,963	3,108	2,888	1,916	(2,466)
Gain on exchange of television station....	--	70,572	--	--	--	--
Miscellaneous income (expense), net.....	(59)(3)	(242)	1,601	263	33	(1,850)(3)
	-----	-----	-----	-----	-----	-----
	(723)	95,293	4,709	3,151	1,949	(4,316)
Interest expense.....	1,335(9)	30,700	--	--	472	(472)(4)
	-----	-----	-----	-----	-----	-----
						11,069(11)
Income (loss) before income taxes.....	(2,058)	64,593	4,709	3,151	1,477	(14,913)
Federal and state income taxes.....	(362)(6)	26,372	1,388	1,135	36	(4,455)(6)
	-----	-----	-----	-----	-----	-----
Net income (loss).....	(1,696)	38,221	3,321	2,016	1,441	\$(10,458)
Preferred dividends....	--	1,318	--	--	--	--
	-----	-----	-----	-----	-----	-----
Net income (loss) available to common stockholders.....	\$(1,696)	\$ 36,903	\$3,321	\$2,016	\$1,441	\$(10,458)
	=====	=====	=====	=====	=====	=====
Average outstanding common shares-basic...		11,923				
Stock compensation awards.....		481				

Average outstanding common shares-diluted.....		12,404				
		=====				
Basic earnings per common share.....		\$ 3.10				
		=====				
Diluted earnings per common share.....		\$ 2.98				
		=====				

PRO FORMA
COMBINED

STATEMENT OF OPERATIONS
DATA:

OPERATING REVENUES:

Broadcasting.....	\$118,882
Publishing.....	34,110
Paging.....	8,553

	161,545

EXPENSES:

Broadcasting.....	67,596
Publishing.....	27,852
Paging.....	5,618
Corporate and administrative.....	3,063
Depreciation and amortization.....	27,007

	131,136

	30,409

Gain on exchange of television station....	70,572
Miscellaneous income (expense), net.....	(195)

	100,786

Interest expense.....	41,769

Income (loss) before income taxes.....	59,017
Federal and state income taxes.....	24,476

Net income (loss).....	34,541
Preferred dividends....	1,318

Net income (loss) available to common stockholders.....	\$ 33,223
	=====

Average outstanding common shares-basic...	15,093(12)
Stock compensation	

awards.....	481

Average outstanding common shares-diluted.....	15,574
	=====
Basic earnings per common share.....	\$ 2.20(12)
	=====
Diluted earnings per common share.....	\$ 2.13
	=====

GRAY COMMUNICATIONS SYSTEMS, INC.

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1998

- (1) Reflects elimination of historical corporate overhead expense of Busse Broadcasting Corporation, including executive officer compensation, professional fees and office overhead costs. With respect to KWTX, Brazos and KXII, reflects elimination of historical expenses, including director's fees, certain management bonuses and other management fees paid to related parties whose involvement with the businesses will terminate at closing. Gray does not anticipate that it will incur such expenses subsequent to the respective acquisitions.
- (2) Reflects adjustment of depreciation and amortization charges associated with the allocation of the total acquisition cost among the assets acquired and the liabilities assumed. Depreciation of property plant and equipment is calculated using the straight-line method applied over the estimated useful lives of the assets. Such lives range from five to 35 years. Amortization of intangible assets, including FCC licenses, network affiliation agreements and goodwill, is calculated using the straight-line method over an estimated useful life of 40 years. Also, with respect to The Goshen News, a non-compete agreement with a value of \$1.5 million is being amortized using the straight-line method over its stated life of five years.
- (3) Reflects elimination of (a) certain other historical expenses and interest income, that Gray will not incur or does not anticipate it will earn subsequent to the acquisitions and (b) KWTX's income of \$1 million derived from its equity investment in Brazos under the equity method.
- (4) Reflects elimination of historical interest expense.
- (5) Reflects increased interest expense associated with the \$42.7 million incremental debt incurred for the acquisition of Busse, assuming an effective interest rate of 8%. The pro forma increase of interest expense includes \$1.9 million of historical net interest expense eliminated in Note (4) above from January 1, 1998 through July 31, 1998 associated with certain Busse indebtedness that was retired in October 1998.
- (6) Income tax benefits associated with the respective acquisition and disposition transactions have been estimated assuming an effective tax rate of 34%.
- (7) Reflects elimination of Busse historical preferred stock dividends.
- (8) Reflects the reclassification of certain revenue to conform to Gray's financial statement presentation.
- (9) Reflects interest expense on \$16.7 million of incremental indebtedness incurred in connection with the purchase of The Goshen News, assuming an effective interest rate of 8%.
- (10) Reflects reclassification of certain sales commission expense to broadcasting expenses to conform to Gray's financial statement presentation.
- (11) Reflects: (a) interest charges on the estimated \$100 million of newly issued indebtedness, with an assumed effective interest rate of 8.8%; (b) amortization of an estimated \$1.8 million of deferred financing charges associated with the new

indebtedness issued; (c) incremental interest due to an assumed increase in the effective interest rate of 1.4% on Gray's \$130.7 million term loan and revolving credit facility due to the increased overall leverage of Gray after completion of the acquisitions and (d) interest on an incremental \$1.6 million of borrowing under the revolving credit facility used to complete the financing of the acquisitions at an assumed effective interest rate of 8.3%. A 1/8% change in the effective interest rates on variable rate debt paid by Gray would produce a corresponding change in Gray's interest expense of approximately \$290,000 for the year ended December 31, 1998.

(12) The pro forma weighted average shares outstanding and earnings per common share assume that:

- the price of the Gray class B common stock as of the day immediately preceding the closing date of the acquisitions will be \$14.125 per share;
- KWTX and Brazos shareholders will receive 40% of the aggregate merger consideration in shares of Gray class B common stock; and
- a total of 3,170,000 shares of Gray class B common stock will be issued in the acquisitions of KWTX and Brazos.

The merger agreements provide that the shareholders of KWTX and Brazos may elect to receive up to 100% of their respective merger consideration in Gray class B common stock and that each shareholder of KWTX and Brazos must receive at least 40% of the aggregate consideration in shares of Gray class B common stock with the stock being valued as of the close of business on the day immediately preceding the closing date. Accordingly, the number of shares of Gray class B common stock to be issued can not be determined until the closing date of the acquisitions.

The following table illustrates the effect that the issuance of varying numbers of shares of Gray class B common stock in the acquisitions would have on Gray's pro forma diluted earnings per share for the year ended December 31, 1998, based upon:

- varying assumptions as to the percentage of aggregate merger consideration such shareholders elect to receive in Gray class B common stock; and
- varying assumptions as to the market value per share of Gray class B common stock as of the day immediately preceding the closing date of the acquisitions.

Weighted average diluted earnings per common share (rounded to the nearest cent):

AGGREGATE PERCENTAGE OF KWTX AND
BRAZOS MERGER CONSIDERATION TO BE
RECEIVED IN SHARES OF GRAY CLASS B
COMMON STOCK:

PRICE PER SHARE:	EARNINGS PER COMMON SHARE			
	40%	60%	80%	100%
\$15.....	\$2.16	\$1.97	\$1.81	\$1.67
\$14.125(a).....	2.13	1.94	1.77	1.63
\$14.....	2.13	1.93	1.77	1.63
\$13.....	2.10	1.89	1.72	1.58
\$12.....	2.06	1.85	1.67	1.53
\$11.....	2.02	1.79	1.62	1.47
\$10.....	1.97	1.74	1.56	1.41

(a) The closing price of Gray class B common stock on June 30, 1999

If the average price per share of Gray class B common stock during the 20 trading day period immediately preceding the closing date of the KWTX and Brazos acquisitions or the price of Gray class B common stock on the day immediately preceding the closing date is less than \$12 per share, then Gray at its option may pay the aggregate merger consideration for KWTX and Brazos in cash. Such amount would be \$95.5 million before the payment for any specified net working capital adjustments required under the acquisition agreements, transaction fees and related expenses.

GRAY COMMUNICATIONS SYSTEMS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
 JUNE 30, 1999
 (DOLLARS IN THOUSANDS)

	KWTX BROADCASTING COMPANY			BRAZOS BROADCASTING CO.	
	GRAY	HISTORICAL	PRO FORMA ADJUSTMENTS	HISTORICAL	PRO FORMA ADJUSTMENTS
ASSETS:					
CURRENT ASSETS:					
Cash.....	\$ 5,085	\$ 6,020	\$ (6,020)(1)	\$6,059	\$ (6,059)(1)
Trade accounts receivable.....	22,795	1,660	(30)(2)	1,505	--
Recoverable income taxes.....	1,587	--	--	--	--
Inventories.....	878	--	--	--	--
Current portion of program broadcast rights.....	1,206	81	--	78	--
Other current assets.....	1,013	275	--	52	--
Total current assets.....	32,564	8,036	(6,050)	7,694	(6,059)
Property and equipment, net.....	52,885	5,187	(187)(3)	1,921	2,079(3)
Deferred loan costs.....	7,691	--	--	--	--
Intangibles.....	384,975	--	62,903(4)	--	58,191(4)
Other long term assets.....	2,713	263	--	120	--
Equity investment.....	--	4,470	(4,470)(5)	--	--
Total assets.....	\$480,828	\$17,956	\$ 52,196	\$9,735	\$54,211
LIABILITIES AND STOCKHOLDER'S EQUITY:					
CURRENT LIABILITIES:					
Trade payables.....	\$ 805	\$ 298	\$ --	\$ 115	\$ --
Employee compensation and benefits.....	4,718	386	--	317	--
Accrued expenses.....	2,310	10	--	45	(27)(2)
Accrued interest.....	5,049	--	--	--	--
Current portion of program broadcasting obligations.....	1,028	20	--	20	--
Deferred revenue.....	3,247	--	--	--	--
Current portion of long-term debt.....	385	--	--	--	--
Total current liabilities...	17,542	714	--	497	(27)
Long term debt.....	291,287	--	(6,020)(1)	--	(6,059)(1)
Other long-term liabilities:					
Program broadcast obligations, less current portion.....	417	17	--	17	--
Supplemental employee benefits.....	1,052	--	--	--	--
Deferred income taxes.....	43,120	639	15,562(6)	280	15,211(6)
Other acquisition related liabilities.....	4,227	--	--	--	--
Other long term liabilities.....	--	--	59,240(4)	--	54,027(4)
	48,816	656	74,802	297	69,238
Commitments and contingencies					
STOCKHOLDERS EQUITY:					
Net equity of acquired operations.....	--	16,586	(16,586)(4)	8,941	(8,941)(4)
Series A preferred stock.....	10,000	--	--	--	--
Series B preferred stock.....	3,500	--	--	--	--
Class A common stock.....	10,684	--	--	--	--
Class B common stock.....	66,867	--	--	--	--
Retained earnings.....	42,112	--	--	--	--
Treasury stock -- class A.....	(8,579)	--	--	--	--
Treasury stock -- class B.....	(1,401)	--	--	--	--
	123,183	16,586	(16,586)	8,941	(8,941)
Liabilities and Stockholder's Equity.....	\$480,828	\$17,956	\$ 52,196	\$9,735	\$54,211

KXII BROADCASTERS, INC. AND
 KXII BROADCASTERS, LTD.

	COMBINED HISTORICAL	PRO FORMA ADJUSTMENTS	FINANCING	PRO FORMA COMBINED
ASSETS:				
CURRENT ASSETS:				
Cash.....	\$1,118	\$(1,118)(7)	\$ --	\$ 5,085
Trade accounts receivable.....	1,380	--	--	27,310
Recoverable income taxes.....	--	--	--	1,587
Inventories.....	--	--	--	878
Current portion of program broadcast rights.....	121	--	--	1,486

Other current assets.....	70	--	--	1,410
	-----	-----	-----	-----
Total current assets.....	2,689	(1,118)	--	37,756
Property and equipment, net.....	2,135	624(3)	--	64,644
Deferred loan costs.....	--	--	1,750(8)	9,441
Intangibles.....	3,559	(3,559)(7)	--	545,343
		39,274(4)		
Other long term assets.....	86	--	--	3,182
Equity investment.....	--	--	--	--
	-----	-----	-----	-----
Total assets.....	\$8,469	\$35,221	\$ 1,750	\$660,366
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY:				
CURRENT LIABILITIES:				
Trade payables.....	\$ 165	\$ (165)(7)	\$ --	\$ 1,218
Employee compensation and benefits.....	--	--	--	5,421
Accrued expenses.....	263	(263)(7)	--	2,338
Accrued interest.....	--	--	--	5,049
Current portion of program broadcasting obligations.....	156	--	--	1,224
Deferred revenue.....	--	--	--	3,247
Current portion of long-term debt.....	265	(265)(7)	--	385
	-----	-----	-----	-----
Total current liabilities...	849	(693)	--	18,882
Long term debt.....	4,228	(4,228)(7)	113,667(9)	392,875
Other long-term liabilities:				
Program broadcast obligations, less current portion.....	103	--	--	554
Supplemental employee benefits.....	--	--	--	1,052
Deferred income taxes.....	--	--	--	74,812
Other acquisition related liabilities.....	--	--	--	4,227
Other long term liabilities.....	--	43,431(4)	(156,698)(4)	--
	-----	-----	-----	-----
	103	43,431	(156,698)	80,645
Commitments and contingencies				
STOCKHOLDERS EQUITY:				
Net equity of acquired operations.....	3,289	(3,289)(4)	--	--
Series A preferred stock.....	--	--	--	10,000
Series B preferred stock.....	--	--	--	3,500
Class A common stock.....	--	--	--	10,684
Class B common stock.....	--	--	44,781(10)	111,648
Retained earnings.....	--	--	--	42,112
Treasury stock -- class A.....	--	--	--	(8,579)
Treasury stock -- class B.....	--	--	--	(1,401)
	-----	-----	-----	-----
	3,289	(3,289)	44,781	167,964
	-----	-----	-----	-----
Liabilities and Stockholder's Equity.....	\$8,469	\$35,221	\$ 1,750	\$660,366
	=====	=====	=====	=====

GRAY COMMUNICATIONS SYSTEMS, INC.

BALANCE SHEET
JUNE 30, 1999

The pro forma adjustments for the acquisitions of KWTX, Brazos and KXII and the related financing are as follows:

- (1) Reflects the use of cash to pay down long-term debt. This cash was acquired with the acquisitions of KWTX and Brazos.
- (2) Reflects elimination of certain intercompany accounts.
- (3) Reflects adjustment of property, plant and equipment to estimated fair market value.
- (4) Reflects the purchase of KWTX, Brazos and KXII and the allocation of the purchase price of \$156.7 million to the tangible assets and liabilities based upon estimates of fair value at June 30, 1999. The total cost includes the base price, cash on hand at KWTX and Brazos, working capital adjustments and acquisition related fees, which as of June 30, 1999 were \$139.0 million, \$12.1 million, \$3.7 million and \$1.9 million, respectively. The allocation of the total cost is as follows (dollars in thousands):

DESCRIPTION	KWTX	BRAZOS	KXII	TOTAL
Cash.....	\$ 6,020	\$ 6,059	\$ --	\$ 12,079
Accounts receivable.....	1,630	1,505	1,380	4,515
Other current assets.....	356	130	191	677
Property and equipment.....	5,000	4,000	2,759	11,759
Other long term assets.....	263	120	86	469
FCC licenses, network affiliation agreements and other intangible assets.....	62,903	58,191	39,274	160,368
Trade payables.....	(298)	(115)	--	(413)
Employee compensation and benefits.....	(386)	(317)	--	(703)
Current portion of program broadcast obligations.....	(20)	(20)	(156)	(196)
Other current liabilities.....	(10)	(18)	--	(28)
Deferred tax liabilities.....	(16,201)	(15,491)	--	(31,692)
Other long term liabilities.....	(17)	(17)	(103)	(137)
Purchase price including expenses.....	\$ 59,240	\$ 54,027	\$43,431	\$156,698
Historical book value.....	\$(16,586)	\$(8,941)	\$(3,289)	\$(28,816)
Assets not acquired and liabilities not assumed.....	--	--	(244)	(244)
Adjustment to eliminate certain intercompany accounts.....	30	(27)	--	3
Adjustment to equity investment.....	4,470	--	--	4,470
Adjustment of property, plant and equipment to fair market value.....	187	(2,079)	(624)	(2,516)
Adjustment to deferred taxes.....	15,562	15,211	--	30,773
Net value of assets acquired or liabilities assumed.....	3,663	4,164	(4,157)	3,670
Purchase price including expenses.....	59,240	54,027	43,431	156,698
FCC licenses, network affiliation agreements and other intangible assets.....	\$ 62,903	\$ 58,191	\$39,274	\$160,368

- (5) Reflects elimination of KWTX's equity investment in Brazos.
- (6) Reflects the deferred tax liability associated with recording assets and liabilities at fair value and recording intangibles which are not deductible for income tax purposes. The adjustment is calculated using an assumed effective tax rate of 34%.
- (7) Reflects the elimination of certain assets and liabilities of KXII, which will not be included in the acquisition.
- (8) Reflects estimated financing fees to be incurred in connection with the acquisitions of KWTX, Brazos and KXII.
- (9) Reflects assumed incremental borrowings of \$101.6 million to complete the acquisitions. Cash acquired at KWTX and Brazos will be used to reduce aggregate borrowing requirements. Gray currently intends to borrow \$100 million of new senior indebtedness to fund the acquisitions and to borrow additional funds, as necessary, under the existing revolving credit facility to complete any funding requirements. The amount borrowed to complete the acquisitions assumes the shareholders of KWTX and Brazos elect to receive 60% of their respective merger consideration in cash.
- (10) Reflects assumed issuance of 3,170,000 shares of Gray class B common stock at an assumed price of \$14.125 per share, the closing price of such stock on June 30, 1999. Such amount assumes the shareholders of KWTX and Brazos elect to receive 40% of their respective merger consideration in shares of Gray class B common stock.

The respective merger agreements establish the minimum value of the Gray class B common stock at \$14.00 per share and the maximum value at \$15.00 per share. However, Gray is obligated to provide at least 40% of the aggregate merger consideration for KWTX and Brazos in shares of Gray class B common stock with the stock being valued at a specified time and for a specified period immediately preceding the closing date.

The following table illustrates the aggregate number of shares which would be issued to the KWTX and Brazos shareholders as of June 30, 1999, based upon:

- varying assumptions as to the percentage of aggregate merger consideration such shareholders elect to receive in Gray class B common stock; and
- varying assumptions as to the market value per share of Gray class B common stock as of the close of business on the day immediately preceding the closing date.

Shares in thousands, price per share in dollars:

AGGREGATE PERCENTAGE OF KWTX AND
BRAZOS CONSIDERATION TO BE RECEIVED
IN SHARES OF GRAY CLASS B COMMON
STOCK

40%	60%	80%	100%
-----	-----	-----	------

PRICE PER SHARE:	NUMBER OF SHARES OF GRAY CLASS B COMMON STOCK			
\$15.....	2,985	4,478	5,971	7,463
\$14.125(a).....	3,170	4,755	6,341	7,926
\$14.....	3,199	4,798	6,397	7,997
\$13.....	3,445	5,167	6,889	8,612
\$12.....	3,732	5,598	7,463	9,329
\$11.....	4,071	6,106	8,142	10,177
\$10.....	4,478	6,717	8,956	11,195

(a) The closing price of Gray class B common stock on June 30, 1999

If the average price per share of Gray class B common stock during the 20 trading day period immediately preceding the closing date of the KWTX and Brazos acquisitions or the price of Gray class B common stock on the day immediately preceding the closing date is less than \$12 per share, then Gray at its option may pay the aggregate merger consideration for KWTX and Brazos in cash. Such amount would be \$95.5 million before the payment for any specified net working capital adjustments required under the acquisition agreements, transaction fees and related expenses.

GENERAL BACKGROUND INFORMATION RELATING TO THE
TELEVISION BROADCAST INDUSTRY

REVENUES

Television station revenues are primarily derived from local, regional and national advertising. To a lesser extent, television stations derive revenues from network compensation, studio and tower space rental and commercial production activities.

Advertising rates are based upon a variety of factors, including:

- a program's popularity among the viewers an advertiser wishes to attract;
- the number of advertisers competing for the available time;
- the size and demographic makeup of the market served by the station;
- the availability in the market area of alternative advertising media, such as radio, newspapers and billboards;
- overall image of a station in a market;
- the station's ratings and share among particular demographic groups which an advertiser may be targeting; and
- aggressive and knowledgeable sales forces and the development of projects, features and programs that tie advertiser messages to programming.

Because broadcast stations rely on advertising revenues, they are sensitive to cyclical changes in the economy. Advertisers' budgets are affected by broad economic trends and in turn affect the broadcast industry in general and the revenues of individual broadcast television stations.

MARKET DESIGNATIONS AND AUDIENCE RATING INFORMATION

The A.C. Nielsen Company groups all television stations in the country into approximately 210 generally recognized television markets that are ranked in size according to various formulae based upon actual or potential audience. Each television market is an exclusive geographic area consisting of all counties in which the home-market commercial stations receive the greatest percentage of total viewing hours.

Nielsen periodically publishes data on estimated audiences for the television stations in the various television markets throughout the country. This information contains, among other items, data relating to the size of the viewing audience and demographic characteristics such as sex and age.

At present, Nielsen is the only company collecting and reporting television viewing data on a nationally recognized basis.

NETWORK AFFILIATIONS AND OTHER PROGRAMMING INFORMATION

Four major broadcast networks, ABC, CBS, NBC and Fox, dominate broadcast television. Additionally, United Paramount Network and Warner Brothers Network have emerged as additional television networks. An affiliate of UPN or WB receives a smaller

portion of each day's programming from its network compared to an affiliate of one of the four major networks.

In general, affiliation agreements provide the affiliated station with the right to broadcast all programs transmitted by the network. In return, the network has the right to sell a substantial majority of the advertising time during such broadcasts. The affiliate retains the revenues from time sold during breaks in and between network programs and programs the affiliate produces or purchases from non-network sources.

In exchange for every hour of network programming a station elects to broadcast, ABC, CBS, NBC and to a lesser extent, Fox pay their affiliated station a specific network compensation payment. The payment varies with the time of day. Typically, prime-time programming generates the highest hourly network compensation payments. Such payments are subject to increase or decrease by the network during the term of an affiliation agreement with provisions for advance notices and right of termination by the station in the event of a reduction in such payments.

To fill in the time periods not programmed by the network, the local station will either produce local programs or purchase rights to air programs from national program distributors. A station's local news and public affairs programs are the most often locally produced programs. Successful commercial television stations will often build a strong market brand identity from locally produced news programs.

In contrast to a station affiliated with a network, a fully independent station purchases or produces all of the programming that it broadcasts, resulting in generally higher programming costs. An independent station, however, retains its entire inventory of advertising time and all the revenues obtained therefrom.

COMPETITION

Competition in the television industry exists on several levels: competition for audience, competition for programming, including news and competition for advertisers.

Audience. Stations compete for audience on the basis of program popularity, which has a direct effect on advertising rates. An affiliated station is supplied a large portion of its programming by the network. During those periods, the affiliate is dependent upon the performance of the network programs to attract viewers. A station programs non-network time periods with a combination of self-produced news, public affairs and other entertainment programming.

Cable-originated programming has emerged as a significant competitor for viewers of broadcast television programming. However, no single cable network regularly attains audience levels amounting to more than a small fraction of any single major broadcast network. The advertising share of cable networks has increased as a result of the growth in cable subscribers and viewers. Even with the increases in cable viewership and advertising, over-the-air broadcasting remains the dominant distribution system for mass market television advertising.

In addition to cable, the development of other methods of television transmission of video programming has significantly altered competition for audience in the television industry. These other transmission methods can increase competition for a broadcasting station by bringing into its market distant broadcasting signals not otherwise available to

the station's audience and also by serving as a distribution system for non-broadcast programming. These sources of competition include:

- home entertainment systems such as VCRs and digital video disk players;
- wireless cable services and satellite master antenna television systems;
- low power television stations and television translator stations;
- direct broadcast satellite video distribution services; and
- the Internet.

Also, television stations compete with all other forms of leisure activities for the attention of viewers.

Programming. Competition for programming involves negotiating with national program distributors or syndications that sell first-run and rerun packages of programming. Each station competes against the broadcast station competitors in its market for exclusive access to off-network reruns such as Seinfeld and first-run product such as Entertainment Tonight. Cable systems generally do not compete with local stations for programming, although various national cable networks acquire programs that would otherwise be offered to local television stations. Competition exists for exclusive news stories and features as well. In purchasing rights to non-network programs affiliates compete primarily with other affiliates and independent stations in their markets.

A television station may acquire programming through barter arrangements. Under barter arrangements a national program distributor may receive advertising time in exchange for the programming it supplies, with the station paying a reduced or zero cash fee for such programming.

Advertising. Stations compete for advertising revenues with other television stations. Stations also compete for advertising revenue with other media, such as newspapers, radio stations, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail, local cable systems and the Internet. Competition for advertising dollars in the broadcasting industry occurs primarily within individual markets.

FEDERAL REGULATION OF TELEVISION BROADCASTING

The FCC regulates television broadcast stations and related facilities consistent with its interpretation of the public interest, convenience and necessity, as required by the Communications Act of 1934, as amended. Its regulatory jurisdiction includes:

- the technical operation of broadcast stations, including the initial allotment and assignment of frequencies;
- the approval of transfers of licenses and assignment of licenses;
- the assignment of call letters to stations;
- the designation of operating power, sign-on and sign-off times; and
- the enforcement of statutes, rules and policies relating to program content, including indecent programming limitations, games and lotteries, and providing a core amount

of children's television programming with limited commercial matter while identifying sponsors.

In addition, the FCC requires that licensees make available equal opportunities for use of broadcast facilities by political candidates or opposing political candidates, station identification and identification of recorded programs or program segments. Licensees which have violated FCC statutes, rules or policies are subject to sanctions, including loss of license and fines.

Television broadcasting licenses generally are granted or renewed for a period of eight years. When a television license is subject to renewal parties in interest may file petitions to deny, and such parties, including members of the public, may comment upon the service the station has provided during the preceding license term and urge denial of the application. If the FCC finds that the licensee has failed to meet the above-mentioned requirements, it could deny the renewal application or grant a conditional approval, including renewal for a term of less than eight years. Only after denying a renewal application can the FCC accept and consider competing applications for the license. There can be no assurance that a station's licenses will be renewed. However, in almost all cases, the FCC will renew a license.

The FCC has many rules and regulations for the television broadcast industry, which include, but are not limited to:

- Rules limiting the ability of individuals and entities to own or have an ownership interest above a certain level in broadcast stations as well as other mass media entities. For example, these rules preclude any individual or entity from having an attributable interest in television stations whose aggregate audience reach exceeds 35% of all United States households.
- Rules prohibiting an individual or entity from having an attributable interest in more than one television station in a market. An exception to this general rule prohibiting the ownership of more than one television station in a market is when one of the stations qualifies as a "satellite station" under FCC rules, i.e, a station that rebroadcasts substantial amounts of programming supplied by, and is often economically tied to, a "parent station" in the same market. The ownership of more than one television station in a market is also permitted when (1) one of the stations with common ownership is a failing station or an authorized but unbuilt station, (2) the television stations with common ownership have overlapping signals; provided they are licensed to serve communities in separate markets as defined by A.C. Nielsen or (3) there are eight independently owned stations in the market and one of the stations with common ownership is not among the top four most highly viewed stations in the market.
- Rules and the Telecommunications Act generally prohibiting an individual or entity from having an attributable interest in a television station and a radio station, daily newspaper or cable television system that is located in the same local market area served by the television station, although waivers will be entertained. In addition, the FCC has revised the TV-radio cross-ownership restriction (the so-called "one-to-a-market" rule) to permit such ownership combinations in larger markets provided at least 20 independent media voices would remain following the merger and the combined entity owned no more than two television stations and six radio stations (any combination of AM or FM stations) in the market. Further, the FCC

has adopted new rules regarding issues of control and attribution with respect to local marketing and similar agreements entered into by television stations with other stations in the same market.

- The Communications Act restricts the ability of foreign entities, corporations or individuals to own or hold interests in broadcast licenses. Foreign governments, representatives of foreign governments, non-citizens, representatives of non-citizens, and corporations or partnerships organized under the laws of a foreign nation are barred from holding broadcast licenses.
- Pursuant to the 1992 Cable Act, cable operators must carry the signals of local commercial television stations, with certain exceptions. A cable system with more than 12 usable activated channels, regardless of the number of subscribers, must carry the signals of all local commercial television stations, up to one-third of the aggregate number of usable activated channels. The 1992 Cable Act also includes a retransmission consent provision that prohibits cable operators and other multi-channel video programming distributors from carrying broadcast stations without obtaining their consent in certain circumstances. The "must carry" and retransmission consent provisions are related in that a local television broadcaster, on a cable system-by-cable-system basis, must make a choice once every three years whether to proceed under the "must carry" rules or to waive that right to mandatory but uncompensated carriage and negotiate a grant of retransmission consent to permit the cable system to carry the station's signal, in exchange for some form of consideration from the cable operator. Cable systems must obtain retransmission consent to carry all distant commercial stations other than certain "super stations" delivered via satellite. Under rules adopted to implement these "must carry" and retransmission consent provisions, local television stations are required to make an election of "must carry" or retransmission consent at three-year intervals. Stations that fail to elect are deemed to have elected carriage under the "must carry" provisions.

Under the FCC's ownership rules, a direct or indirect purchaser of certain types of securities of Gray could violate FCC regulations if that purchaser owned or acquired an "attributable" or "meaningful" interest in other media properties in the same areas as stations owned by Gray or in a manner otherwise prohibited by the FCC. All officers and directors of a licensee, as well as general partners, unincorporated limited partners and shareholders who own five percent or more of the voting power of the outstanding common stock of a licensee either directly or indirectly, generally will be deemed to have an "attributable" interest in the licensee. Certain institutional investors who exert no control or influence over a licensee may own up to 20% of the voting power of the outstanding common stock before attribution occurs. Under current FCC regulations the following are not subject to attribution, debt instruments, non-voting stock, voting stock held by minority shareholders in cases in which there is a single majority shareholder and limited partnership interests provided the licensee certifies that the limited partners are not "materially involved" in the management and operation of the subject media property. To determine whether a program supplier or another station in the market has an attributable interest in a station, the FCC will determine whether the entity in question holds equity or debt equal to 33% of the station's assets.

In response to legislation and judicial determinations, the FCC currently has under consideration new regulations and policies regarding a wide variety of matters that could

affect, directly or indirectly, the operation and ownership of television broadcast properties, including:

- the license renewal processes, particularly the weight to be given to the expectancy of renewal for an incumbent broadcast licensee and the criteria to be applied in deciding contested renewal applications;
- spectrum use fees;
- political advertising practices;
- potential advertising restrictions on the advertising of products such as liquor;
- the rules to be applied in enforcing the FCC's equal employment opportunity policies;
- cable carriage of digital television signals;
- viewing of distant network signals by subscribers to direct broadcast satellite services; and
- the standards to govern evaluation of television programming directed toward children and violent and indecent programming, including the possible requirement of what is commonly referred to as the "v-chip," which would permit parents to program television sets so that certain programming would not be accessible by children.

There can be no assurance that any of these rules will not be changed by Congress or by the FCC. The impact of any such changes affecting the broadcast industry cannot be predicted.

Under FCC rules, the entire television broadcast industry has commenced the introduction of digital television to the United States. Implementation of digital television will improve the technical quality of television signals receivable by viewers and will provide broadcasters the flexibility to offer new services, including: high-definition television which is comparable to 35mm film in quality; simultaneous broadcasting of multiple programs of standard definition television; and digitally broadcasting other forms of data, such as stock quotes.

Based upon current pronouncements of the FCC and Congress, it is expected, after a period of years, that: (1) broadcasters will be required to cease non-digital operations; (2) return the non-digital channel to the FCC and (3) broadcast only with the newer digital technology.

INFORMATION CONCERNING KWTX

GENERAL

KWTX Broadcasting Company, a Texas corporation, owns and operates television station KWTX located in Waco, Texas. KWTX broadcasts on channel 10 and is affiliated with the CBS television network. KWTX began operations in 1955. In addition to station KWTX, KWTX Broadcasting Company owns 50% of the stock of Brazos Broadcasting Company, a Texas corporation. KWTX broadcasts 16.5 hours of locally produced newscasts each week. The remainder of the program schedule is filled with programming provided by the CBS network and syndicated programming purchased from various program suppliers.

Waco, Texas is part of the Waco-Temple-Bryan television market. The market is considered to be the 95th largest television market in the country.

MARKET INFORMATION

The table below and the discussion that follows contain information regarding KWTX and the television markets in which it operates. Unless noted otherwise, all station rank, in-market share and television household data is from the Nielsen Station Index, Viewers in Profile, dated November 1998, as prepared by Nielsen. The station's rank in the television market area is based on Nielsen estimates for November 1998 for the period from 6 a.m. to 2 a.m. Sunday through Saturday. Estimates of population are as reported by the September 1998, Nielsen Station Index-U.S. Television Household Estimates published by Nielsen. "In-market share of households viewing television" represents the percentage of the station's audience as a percentage of all viewing by households in the market from 6 a.m. to 2 a.m. Sunday through Saturday, including viewing of non-commercial stations, national cable channels and out-of-market stations broadcast or carried by cable in the market as reported by Nielsen for November 1998. Total Market Revenues represent gross advertising revenues, excluding barter revenues, for all commercial television stations in the market, as reported in Investing in Television 1998 Market Report, Fourth Edition November 1998 Ratings published by BIA Publications, Inc. Average household income, effective buying income and retail business sales growth projections are as reported in the BIA Guide.

STATION	MARKET	MARKET RANK PER NIELSEN	COMMERCIAL STATIONS IN MARKET(1)	STATION RANK IN MARKET	TELEVISION HOUSEHOLDS	TOTAL MARKET REVENUES FOR 1998 (IN THOUSANDS)	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV
KWTX.....	Waco-Temple-Bryan, Texas	95	5	1	279,000	\$28,800	32%

(1) Includes independent broadcasting stations and excludes satellite stations.

The Waco-Temple-Bryan television market has a total population of approximately 790,000. According to the BIA Guide, the average household income in the Waco-Temple-Bryan television market in 1996 was \$35,062. The television market consists of 14 counties covering a large portion of central Texas. The cities of Waco, Temple and Bryan are the primary economic centers of the region. In addition, College Station, Texas is the home of Texas A&M University. The area's economy centers on medical services, colleges

and universities and U.S. military installations. Leading employers in the Waco-Temple area include Baylor University, Raytheon and the U.S. Army Base at Fort Hood.

EMPLOYEES

As of July 31, 1999, KWTX had 90 full-time and 12 part-time employees. KWTX believes its relations with its employees are good. No employees are represented under any collective bargaining agreements.

NETWORK AFFILIATION AGREEMENT

KWTX's current CBS network affiliation agreement expires December 31, 2000. The affiliation agreement allows for an automatic five-year renewal. The station or the network can cancel the automatic renewal, by giving notice to the other party at least 12 months before the then current expiration date. Also, when there is a change in control of an affiliated station, like the proposed acquisition by Gray, the network must give its consent to maintain an existing affiliation agreement in force. Generally, such consent is routinely granted.

FCC LICENSE

The FCC license for KWTX will expire on August 1, 2006, subject to routine renewal applications.

DIGITAL TELEVISION (HIGH DEFINITION TELEVISION)

In connection with the introduction of digital television to the United States, the FCC has assigned all existing television licensees a second channel on which to provide digital television simultaneously with their current non-digital service. The implementation of digital television is based upon an FCC timetable that generally requires the largest television markets to begin digital operations and then phase in progressively smaller markets over a period of several years. The table below provides the current FCC digital channel assignment and implementation schedule for KWTX.

STATION	FCC PROPOSED DIGITAL CHANNEL	REQUEST DIGITAL LICENSE FROM THE FCC NOT LATER THAN	COMMENCE DIGITAL BROADCAST OPERATIONS NOT LATER THAN
KWTX.....	53	November 1, 1999	May 1, 2002

KWTX intends to comply with the FCC timetable outlined above. The introduction of digital television at KWTX will involve material amounts of capital expenditures. KWTX is currently evaluating the initial costs of digital services. KWTX anticipates that the initial costs to commence digital broadcasting may require a minimum investment of several million dollars.

The conversion to digital operations may reduce a station's geographical coverage area but the majority of stations will obtain service areas that match or exceed the limits of existing operations. KWTX currently anticipates that its digital operations will produce coverage areas substantially similar to their non-digital operations.

PRIMARY PROPERTIES

The types of properties required to support television stations include offices, studios, transmitter sites and antenna sites. A station's studios are generally housed with its offices in business districts. The transmitter sites and antenna are generally located in elevated areas to provide optimal signal strength and coverage. The primary offices of KWTX are located at 6700 American Plaza, Waco, Texas 76712. Its mailing address is KWTX Broadcasting Company, P.O. Box 2636, Waco, Texas 76702-2636.

The following table provides information regarding the significant properties involved in the operation of KWTX:

PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE
Waco, Texas.....	Studio and offices	Owned	34,000 sq. ft. building on 4.0 acres
Moody, McLeman County, Texas.....	Transmitter building and main tower	Owned	1,200 sq. ft. building and 1,678 ft. tower and antenna on 27.9 acres

SHARE OWNERSHIP

As of July 31, 1999, management of KWTX knew of no person, other than those set forth below, who is the beneficial owner of more than 5% of KWTX's common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OF CLASS
Ellen Bostick Deaver..... 3420 North Ridge Drive Waco, Texas 76710	96.603 shares	6.23
Ray M. Deaver..... 3420 North Ridge Drive Waco, Texas 76710	96.603 shares	6.23
Donald Howell..... c/o First City Tower 1001 Fannin Street, Suite 2300 Houston, Texas 77002-6760	80.50275 shares	5.19
First Stock Company, Norwest Trust Texas N.A. Waco..... Attn: Lori Rizo, P.O. Box 2626 Waco, Texas 76702-2626	133.969 shares	8.64
Thomas Stribling..... P.O. Box 8518 Waco, Texas 76714	122.562 shares	7.91
The LBJ Holding Company..... c/o J.E. Ricks Hogan & Hartson 555 13th Street N.W. Washington, D.C. 20004	420 shares	27.10

INFORMATION CONCERNING BRAZOS

GENERAL

Brazos Broadcasting Co. owns television station KBTX located in Bryan, Texas. KBTX broadcasts on channel 3 and is affiliated with the CBS television network. KBTX began operations in 1957. KBTX is designated as a satellite station of KWTX under the rules of the FCC. This means that it receives most of its programming from KWTX and that the senior management of KWTX is also responsible for the operations of KBTX. KBTX broadcasts 16.5 hours of locally produced newscasts each week. The remainder of the program schedule is filled with programming provided by the CBS network and syndicated programming purchased from various program suppliers and generally supplied to KBTX by KWTX.

Bryan, Texas is part of the Waco-Temple-Bryan television market. The market is considered to be the 95th largest television market in the country.

MARKET INFORMATION

The table below and the discussion that follows contain information regarding Brazos and the television markets in which it operates. Unless noted otherwise, all station rank, in-market share and television household data is from the Nielsen Station Index, Viewers in Profile, dated November 1998, as prepared by Nielsen. The station's rank in the television market area is based on Nielsen estimates for November 1998 for the period from 6 a.m. to 2 a.m. Sunday through Saturday. Estimates of population are as reported by the September 1998, Nielsen Station Index-U.S. Television Household Estimates published by Nielsen. "In-market share of households viewing television" represents the percentage of the station's audience as a percentage of all viewing by households in the market from 6 a.m. to 2 a.m. Sunday through Saturday, including viewing of non-commercial stations, national cable channels and out-of-market stations broadcast or carried by cable in the market as reported by Nielsen for November 1998. Total Market Revenues represent gross advertising revenues, excluding barter revenues, for all commercial television stations in the market, as reported in Investing in Television 1998 Market Report, Fourth Edition November 1998 Ratings published by BIA Publications, Inc. Average household income, effective buying income and retail business sales growth projections are as reported in the BIA Guide.

STATION	MARKET	MARKET RANK PER NIELSEN	COMMERCIAL STATIONS IN MARKET(1)	STATION RANK IN MARKET	TELEVISION HOUSEHOLDS	TOTAL MARKET REVENUES FOR 1998 (IN THOUSANDS)	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV
KBTX.....	Waco-Temple- Bryan, Texas	95	5	1	279,000	\$28,800	9%

(1) Includes independent broadcasting stations and excludes satellite stations such as KBTX.

The Waco-Temple-Bryan television market has a total population of approximately 790,000. According to the BIA Guide, the average household income in the Waco-Temple-Bryan television market in 1996 was \$35,062. The television market consists of 14 counties covering a large portion of central Texas. The cities of Waco, Temple and Bryan are the primary economic centers of the region. In addition, College Station, Texas

is the home of Texas A&M University. The area's economy centers on medical services, agriculture, colleges and universities and U.S. military installations. Leading employers in the Bryan area include Texas A&M University and St. Joseph's Regional Medical Center.

EMPLOYEES

As of July 31, 1999, Brazos had approximately 47 full-time and 30 part-time employees. Brazos believes its relations with its employees are good. No employees are represented under any collective bargaining agreements.

NETWORK AFFILIATION AGREEMENT

Brazos' current CBS network affiliation agreement expires December 31, 2000. The affiliation agreement allows for an automatic five-year renewal. The station or the network can cancel the automatic renewal, by giving notice to the other party at least 12 months before the then current expiration date. Also, when there is a change in control of an affiliated station, like the proposed acquisition by Gray, the network must give its consent to maintain an existing affiliation agreement in force. Generally, such consent is routinely granted.

FCC LICENSE

The FCC license for Brazos will expire August 1, 2006, subject to routine renewal applications.

DIGITAL TELEVISION (HIGH DEFINITION TELEVISION)

In connection with introduction of digital television to the United States, the FCC has assigned all existing television licensees a second channel on which to provide digital television simultaneously with their current non-digital service. The implementation of digital television is based upon an FCC timetable that generally requires the largest television markets to begin digital operations and then phase in progressively smaller markets over a period of several years. The table below provides the current FCC digital channel assignment and implementation schedule for Brazos.

STATION	FCC PROPOSED DIGITAL CHANNEL	REQUEST DIGITAL LICENSE	COMMENCE DIGITAL BROADCAST
		FROM THE FCC NOT LATER THAN	OPERATIONS NOT LATER THAN
KBTX.....	59	November 1, 1999	May 1, 2002

Brazos intends to comply with the FCC timetable outlined above. The introduction of digital television at Brazos will involve material amounts of capital expenditures. Brazos is currently evaluating the initial costs of digital services. Brazos anticipates that the initial costs to commence digital broadcasting may require a minimum investment of several million dollars.

The conversion to digital operations may reduce a station's geographical coverage area but the majority of stations will obtain service areas that match or exceed the limits of existing operations. Brazos currently anticipates that its digital operations will produce coverage areas substantially similar to their non-digital operations.

PRIMARY PROPERTIES

The types of properties required to support television stations include offices, studios, transmitter sites and antenna sites. A station's studios are generally housed with its offices in business districts. The transmitter sites and antenna are generally located in elevated areas to provide optimal signal strength and coverage. The primary offices of Brazos are located at 4141 East 29th Street, Bryan, Texas 77802. Its mailing address is Brazos Broadcasting Co., P.O. Box 3730, Bryan, Texas 77805.

The following table provides information regarding the significant properties involved in the operation of Brazos:

PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE	EXPIRATION OF LEASE
Bryan, Texas.....	Studio and offices	Owned	7,000 sq. ft. building on 23.4 acres	not applicable
Grimes County, Texas.....	Transmitter building and main tower	Leased	1,300 sq. ft. building and 1,705 ft. tower and antenna on 560 acres	March 15, 2033

SHARE OWNERSHIP

As of July 31, 1999, management of Brazos knew of no person, other than those set forth below, who is the beneficial owner of more than 5% of Brazos' common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OF CLASS
KWTX Broadcasting Company..... P.O. Box 2636 Waco, Texas 76702-2636	250 shares	50
Ellen Bostick Deaver..... 3420 North Ridge Drive Waco, Texas 76710	25 shares	5
Ray M. Deaver..... 3420 North Ridge Drive Waco, Texas 76710	25 shares	5
Dorothy Varisco Donaho..... 2901 Bammel #28 San Antonio, Texas 78229	25 shares	5
Antoinette Varisco Guido..... 7335 Ashton Place Court San Antonio, Texas 78229	25 shares	5

INFORMATION CONCERNING KXII

GENERAL

KXII Broadcasters, Ltd., a Texas limited partnership, owns and operates television station KXII located in Sherman, Texas. KXII broadcasts on channel 12 and is affiliated with the CBS television network. KXII began operations in 1956. This station is part of the Sherman, Texas -- Ada, Oklahoma television market and is considered to be the 161st largest television market in the country. KXII Television Ltd., a Texas limited partnership affiliated with KXII Broadcasters, Ltd., provides sales personnel and various sales services to KXII. KXII broadcasts 15.5 hours of locally produced newscasts each week. The remainder of the program schedule is filled with programming provided by the CBS network and syndicated programming purchased from various program suppliers.

MARKET INFORMATION

The table below and the discussion that follows contain information regarding KXII and the television markets in which it operates. Unless noted otherwise, all station rank, in-market share and television household data is from the Nielsen Station Index, Viewers in Profile, dated November 1998, as prepared by Nielsen. The station's rank in the television market area is based on Nielsen estimates for November 1998 for the period from 6 a.m. to 2 a.m. Sunday through Saturday. Estimates of population are as reported by the September 1998, Nielsen Station Index-U.S. Television Household Estimates published by Nielsen. "In-market share of households viewing television" represents the percentage of the station's audience as a percentage of all viewing by households in the market from 6 a.m. to 2 a.m. Sunday through Saturday, including viewing of non-commercial stations, national cable channels and out-of-market stations broadcast or carried by cable in the market as reported by Nielsen for November 1998. Total Market Revenues represent gross advertising revenues, excluding barter revenues, for all commercial television stations in the market, as reported in Investing in Television 1998 Market Report, Fourth Edition November 1998 Ratings published by BIA Publications, Inc. Average household income, effective buying income and retail business sales growth projections are as reported in the BIA Guide.

MARKET	MARKET RANK PER NIELSEN	COMMERCIAL STATIONS IN MARKET (1)	STATION RANK IN MARKET	TELEVISION HOUSEHOLDS	TOTAL MARKET REVENUES FOR 1998 (IN THOUSANDS)	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV
KXII..... Sherman, Texas -- Ada, Oklahoma	161	2	1	112,000	\$8,300	78%

(1) Includes independent broadcasting stations and excludes satellite stations.

The Sherman, Texas -- Ada, Oklahoma television market has a total population of approximately 278,000. According to the BIA Guide, the average household income in this television market in 1996 was \$30,884. The television market consists of one county in north central Texas and 11 counties in south central Oklahoma. The cities of Sherman, Texas and Ada and Ardmore, Oklahoma are the primary economic centers of the region. The area's economy centers around medical services, manufacturing and distribution services. Leading employers in the area include Johnson & Johnson and Texas Instruments.

EMPLOYEES

As of July 31, 1999, KXII had 57 full-time and seven part-time employees. KXII believes its relations with its employees are good. No employees are represented under any collective bargaining agreements.

NETWORK AFFILIATION AGREEMENT

KXII's current CBS network affiliation agreement expires December 31, 2000. The affiliation agreement allows for an automatic five-year renewal. The station or the network can cancel the automatic renewal, by giving notice to the other party at least 12 months before the then current expiration date. Also, when there is a change in control of an affiliated station, like the proposed acquisition by Gray, the network must give its consent to maintain an existing affiliation agreement in force. Generally, such consent is routinely granted.

FCC LICENSE

The FCC license for KXII will expire on August 1, 2006, subject to routine renewal applications.

DIGITAL TELEVISION (HIGH DEFINITION TELEVISION)

In connection with the introduction of digital television to the United States, the FCC has assigned all existing television licensees a second channel on which to provide digital television simultaneously with their current non-digital service. The implementation of digital television is based upon an FCC timetable that generally requires the largest television markets to begin digital operations and then phase in progressively smaller markets over a period of several years. The table below provides the current FCC digital channel assignment and implementation schedule for KXII.

	FCC PROPOSED DIGITAL CHANNEL -----	REQUEST DIGITAL LICENSE FROM THE FCC NOT LATER THAN -----	COMMENCE DIGITAL BROADCAST OPERATIONS NOT LATER THAN -----
KXII.....	20	November 1, 1999	May 1, 2002

KXII intends to comply with the FCC timetable outlined above. The introduction of digital television at KXII will involve material amounts of capital expenditures. KXII is currently evaluating the initial costs of digital services. KXII anticipates that the initial costs to commence digital broadcasting may require a minimum investment of several million dollars per station.

The conversion to digital operations may reduce a station's geographical coverage area but the majority of stations will obtain service areas that match or exceed the limits of existing operations. KXII currently anticipates that its digital operations will produce coverage areas substantially similar to their non-digital operations.

PRIMARY PROPERTIES

The types of properties required to support television stations include offices, studios, transmitter sites and antenna sites. A station's studios are generally housed with its offices in business districts. The transmitter sites and antenna are generally located in elevated

areas to provide optimal signal strength and coverage. The primary offices of KXII are located at 4201 Texoma Parkway, Sherman, Texas 75090 and 2624 South Commerce, Ardmore, Oklahoma 73401. Its mailing address is P.O. Box 1175, Sherman, Texas 75091.

The following table provides information regarding the significant properties involved in the operation of KXII:

STATION/APPROXIMATE PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE
Sherman, Texas.....	Studio and offices	Leased(1)	12,813 sq. ft. building on 2.97 acres
Madill, Oklahoma.....	Transmitter building and main tower	Leased(1)	1,200 sq. ft. building and 1,692 ft. tower and antenna on 95 acres
Ardmore, Oklahoma.....	Studio and offices	Leased(1)	3,000 sq. ft. building on 1.5 acres

(1) These properties will be conveyed in fee to Gray upon the closing of the acquisitions.

EQUITY OWNERSHIP

KXII is a Texas limited partnership. As of July 31, 1999, management knew of no person, other than those set forth below, who is directly or indirectly the owner of more than 5% of the equity interests of KXII.

NAME AND ADDRESS OF OWNER	PERCENTAGE OF EQUITY INTERESTS
Richard Adams..... 2806 Wellington Drive Sherman, Texas 75092	11.11
Ellen Bostick Deaver..... 3420 North Ridge Drive Waco, Texas 76710	26.67
Kyle Deaver..... 3430 North Ridge Drive Waco, Texas 76710	17.78
John Lee Deaver..... 1805 Trinity Street Waco, Texas 76710	17.77
Martha Bostick Phipps..... Rt 5 Mesa Road Ardmore, Oklahoma 73401	26.67

COMPARISON OF THE SHAREHOLDERS' RIGHTS,
ARTICLES OF INCORPORATION AND BYLAWS OF GRAY, KWTX AND BRAZOS

GENERAL

If the acquisitions are completed, shareholders of KWTX and Brazos will become shareholders of Gray, which will result in their rights as shareholders being governed by the articles of incorporation and bylaws of Gray. For shareholders of KWTX and Brazos, this will result in their rights as shareholders being governed by the law of Georgia rather than the law of Texas, which governs their rights as shareholders of KWTX and Brazos. It is not practical to describe all the differences between Georgia law and Texas law and between the articles of incorporation and bylaws of Gray and the articles of incorporation and bylaws or similar organizational documents of each of KWTX and Brazos.

The following is a summary of the differences which may affect the rights of shareholders of KWTX and Brazos. This summary is qualified in its entirety by reference to the full text of such documents. For information as to how such documents may be obtained, see "Where To Find Additional Information" on page 109.

AUTHORIZED CAPITAL STOCK

Gray. The authorized capital stock of Gray is 50,000,000 shares, consisting of 15,000,000 shares of Gray class A common stock, and 15,000,000 shares of Gray class B common stock. The Gray board has the authority to issue, at any time or from time to time, without further shareholder approval, up to 20,000,000 shares of preferred stock and to determine the powers, rights, privileges and preferences of those shares, which may be senior to the rights of holders of Gray common stock. Such issuance could adversely affect the holders of Gray common stock and could have the effect of making more difficult the acquisition of control of Gray by means of a hostile tender offer, open market purchases, a proxy contest or otherwise.

Under Georgia law, shareholders have no preemptive rights unless these rights are provided for in the corporation's articles of incorporation. Holders of Gray common stock do not have preemptive rights.

KWTX. The authorized capital stock of KWTX consists of 1,550 shares of common stock, no par value. Under Texas law the shareholders of a corporation have preemptive rights to acquire additional unissued shares of the corporation, except to the extent limited or denied by Section 2.22-1 of the Texas Business Corporation Act or by the corporation's articles of incorporation. KWTX's articles of incorporation contain no provision with regard to preemptive rights.

Brazos. The authorized capital stock of Brazos consists of 500 shares of common stock, par value \$100.00 per share. Under Texas law the shareholders of a corporation have preemptive rights to acquire additional unissued shares of the corporation, except to the extent limited or denied by Section 2.22-1 of the Texas Business Corporation Act or by the corporation's articles of incorporation. Brazos's articles of incorporation contain no provision with regard to preemptive rights.

DIRECTORS

Gray. The bylaws of Gray provide that the Gray board of directors is authorized to fix the number of members of the board and to increase or decrease the number of directors from time to time provided there are not less than three nor more than 15 directors. A majority of directors constitutes a quorum for the transaction of business. The bylaws of Gray provide that a vacancy among the directors may be filled by a majority vote of the remaining directors then in office, though less than a quorum, or by the sole remaining director.

KWTX. The bylaws of KWTX provide that a majority of the total number of directors constitutes a quorum for the transaction of business.

Brazos. The bylaws of Brazos provide that a majority of the total number of directors constitutes a quorum for the transaction of business.

REMOVAL OF DIRECTORS

Under Georgia law (which governs Gray), the shareholders may remove one or more directors with or without cause unless the articles of incorporation or a bylaw adopted by the shareholders provides that directors may be removed only for cause. Directors, unless removed in accordance with Georgia law, shall hold office until the annual meeting of the shareholders and until their successors shall have been elected and qualified. At each annual meeting, the holders of shares entitled to vote in the election of directors shall elect directors to hold office until the next succeeding annual meeting.

Under Texas law (which governs KWTX and Brazos), directors, unless removed in accordance with the provisions of the bylaws or the articles of incorporation, shall hold office until the annual meeting of the shareholders and until their successors shall have been elected and qualified. At each annual meeting, the holders of shares entitled to vote in the election of directors shall elect directors to hold office until the next succeeding annual meeting.

SPECIAL MEETINGS OF SHAREHOLDERS

Gray. The bylaws of Gray provide that special meetings of shareholders may be called at any time by the Chairman of the Board, or by the President, or by the board of directors or the holders of not less than one-third of all outstanding shares of the corporation entitled to vote.

KWTX. The bylaws of KWTX do not contain provisions regarding special meetings of shareholders.

Brazos. The bylaws of Brazos do not contain provisions regarding special meetings of shareholders.

Under Texas law (which governs KWTX and Brazos) special meetings of the shareholders may be called by (1) the president, the board of directors, or such other persons as may be authorized in the articles of incorporation or the bylaws or (2) by the holders of at least 10 percent of all the shares entitled to vote at the proposed special meeting, unless a greater percentage is provided for in the articles of incorporation, but in no event greater than 50 percent.

AMENDMENT OF BYLAWS

Georgia law states that both a corporation's board of directors and shareholders may amend, repeal or adopt bylaws unless a particular bylaw provides expressly that the board of directors may not amend or repeal that bylaw or the articles of incorporation reserve such power exclusively to the shareholders in whole or in part.

Texas law grants to shareholders the power to amend, adopt or repeal bylaws. Texas law also grants the board of directors the power to amend or repeal the corporation's bylaws unless the articles of incorporation reserve this power exclusively to the shareholders, or the shareholders (in amending or repealing a particular bylaw) expressly provide that the board may not amend or repeal that bylaw.

The bylaws of KWTX and Brazos each provide that on a written application of a majority of its shareholders, the bylaws may be altered, changed or amended by a majority vote of the shareholders at any election or special meeting ordered for that purpose by the board of directors, written notice thereof having been given to all shareholders at least 10 days before such meeting. The bylaws of KWTX and Brazos each additionally provide that the bylaws may be altered, changed or amended by two-thirds of the directors at any meeting called for that purpose by the president of the KWTX or Brazos after giving at least 10 days' written notice thereof to all of the directors.

AMENDMENTS TO THE ARTICLES OF INCORPORATION

Under Georgia law (which governs Gray), most amendments to a corporation's articles of incorporation must be adopted by the board of directors and approved by holders of a majority of the stock entitled to vote on such matters. Under Texas law (which governs KWTX and Brazos), amendments to a corporation's articles of incorporation must be adopted by the board of directors and approved by holders of two-thirds of the outstanding shares entitled to vote on such matters.

DIVIDENDS, REDEMPTIONS AND REPURCHASES

Georgia law provides that Georgia corporations, such as Gray may make legal distributions to its shareholders subject to restriction by the articles of incorporation. Distributions may not be legally made if the corporation would not be able to pay its debts in the usual course of business; or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend.

The Gray series A preferred stock and series B preferred stock are senior to the Gray class A common stock and class B common stock, as to the payment of dividends and distribution of assets. Gray's indebtedness also restricts the amount of dividends that may be paid on Gray's capital stock.

Texas law provides that Texas corporations may make legal distributions to its shareholders subject to restriction by the articles of incorporation. Distributions may not be made if after giving effect to the distribution, the corporation would be insolvent or the distribution exceeds the surplus of the corporation. Under Texas law a corporation may by resolution of its board of directors, subject to the provisions of its articles of incorporation,

redeem any or all outstanding shares. If less than all such shares are to be redeemed, the shares to be redeemed shall be selected for redemption in accordance with the provisions in the articles of incorporation. Shares may not be redeemed if after giving effect to the redemption, the corporation would be insolvent or the proceeds distributed in connection with the redemption exceed the surplus of the corporation.

TRANSACTIONS WITH INTERESTED DIRECTORS

Under Georgia law (which governs Gray), a transaction effected or proposed to be effected by the corporation respecting which a director or directors has an interest, may not be enjoined, set aside, or give rise to an award of damages, if any of the following are satisfied: (1) the transaction received the affirmative vote of a majority (but not less than two) of those disinterested directors who voted on the transaction after disclosure of the director or directors' interest; (2) if the material facts of the interest and the contract or transaction are disclosed to or are known to the shareholders entitled to vote on such matter, and the shareholders approve the contract or transaction; and (3) the transaction, judged in the circumstances at the time of commitment, is established to have been fair to the corporation. Disclosure is sufficient if the interested director or directors disclose to the board and the shareholders the existence and nature of the conflict and all facts known respecting the subject matter of the transaction that an ordinarily prudent person would reasonably believe to be material to the judgment as to whether or not to proceed with the transaction.

Under Texas law (which governs KWTX and Brazos), a contract or transaction between a corporation and one or more of its directors or officers, or between an entity in which one or more of its directors or officers are directors or officers or have a financial interest, shall be valid even if the director or officer is present and participates or votes at the meeting of the board or committee that approved the contract or transaction, if any of the following are satisfied: (1) the material facts of the interest and the contract or transaction are disclosed to or are known by the board or a committee, and a majority of the disinterested members of the board or committee, even though less than a quorum, authorizes the contract or transaction in good faith; (2) the material facts of the interest and the contract or transaction are disclosed to or are known to the shareholders entitled to vote on such matter, and the shareholders specifically approve the contract or transaction in good faith; or (3) the contract or transaction is fair to the corporation at the time it is authorized, approved or ratified. There is no provision under Texas law, however, that absolutely precludes a claim by the corporation or its shareholders against the interested director or officer for damages, if any, even if the contract or transaction has been so authorized or approved.

INDEMNIFICATION

Georgia law (which governs Gray) contains provisions setting forth conditions under which a corporation may indemnify directors, officers and others who act on behalf of the corporation. If such directors are successful in defending a claim for which indemnification is permitted, Georgia requires the corporation to provide indemnification of expenses incurred in such defense. Georgia law also permits a corporation to advance expenses to such indemnified officers and directors and to purchase insurance on behalf of any such person against any liability asserted against and incurred by him or her in such capacity, regardless of whether the corporation would be permitted to indemnify against such liability.

Gray's articles of incorporation and bylaws provide that Gray will indemnify, to the fullest extent permitted by law, directors, officers, employees or agents of Gray. Gray will also indemnify any person who had agreed to serve as a director, officer, employee or agent on behalf of Gray, or is or was or has agreed to serve as a director, officer, employee or agent of another entity at Gray's request.

Each of Georgia law (which governs Gray) and Texas law (which governs KWTX and Brazos) contains provisions setting forth conditions under which a corporation may indemnify or advance expenses to directors, officers and others who act on behalf of the corporation. A corporation is required to indemnify a director in connection with a proceeding in which he is a named defendant because he is or was a director if he has been wholly successful in the defense of a proceeding. Each of Georgia law and Texas law also permits a corporation to purchase insurance on behalf of any person who is or was or has agreed to serve as a director, officer, employee or agent of the corporation, against any liability asserted against him or her in such capacity, whether or not the corporation would have the power to indemnify him or her against such liability.

KWTX's articles of incorporation do not provide for the indemnification of either its officers or directors.

Brazos's articles of incorporation do not provide for the indemnification of either its officers or directors.

APPRAISAL RIGHTS

Under Georgia law (which governs Gray) no appraisal rights are granted to shareholders who dissent from a sale, lease or exchange of all or substantially all of the assets of a corporation. Georgia law further provides that generally no appraisal rights are granted to shareholders who dissent from an acquisition or consolidation for which a shareholder vote is required if the shares of the class of stock voting are listed on a national securities exchange or are held of record by more than 2,000 shareholders. However, shareholders who follow prescribed statutory procedures and who have not voted in favor of the applicable transition nor consented thereto in writing will have appraisal rights if the shareholders are required in connection with the acquisition or consolidation to accept for their stock anything other than:

- stock of the corporation surviving or resulting from the acquisition or consolidation;
- stock of any other corporation listed on a national securities exchange or the Nasdaq National Market System or held of record by more than 2,000 shareholders; or
- cash in lieu of fractional shares.

The shareholders of Gray are not entitled to appraisal rights in connection with the transactions to be considered by shareholders at the annual meeting.

Under Texas law (which governs KWTX and Brazos), a shareholder does not have the right to dissent from any plan of acquisition in which there is a single surviving corporation, or from any plan of acquisition or plan of exchange, if:

- the shares of the corporation being acquired are, on the record date fixed to determine the shareholders entitled to vote on the plan of acquisition: (1) listed on a national securities exchange; (2) listed on the Nasdaq Stock Market or designated as a national market security on an interdealer quotation system by the NASD; or (3) held of record by not less than 2,000 holders;
- the shareholder is not required to accept any consideration that is different from the consideration to be received by all other holders of such shares; or
- the shareholder is not required to accept consideration other than: (1) shares of a corporation which are: (i) listed on a national securities exchange; (ii) approved for quotation as a national market security on an interdealer quotation system by the NASD; or (iii) held of record by not less than 2,000 holders; (2) cash in lieu of fractional shares; or (3) any combination of cash and securities listed above.

Generally, in the absence of fraud, dissenters' rights are a shareholder's sole remedy for objecting to an acquisition or consolidation under Texas law.

PROPOSAL 2: ELECTION OF DIRECTORS

NOMINEES

At the shareholders meeting, nine directors are to be elected to hold office (subject to Gray's bylaws) until the next annual meeting of shareholders and until their successors have been elected and qualified. In case any nominee listed in the table below should be unavailable for any reason, which management of Gray has no reason to anticipate, the proxy will be voted for any substitute nominee or nominees who may be selected by management prior to or at the meeting or, if no substitute is selected by management prior to or at the meeting, a motion to reduce the membership of the board to the number of nominees available will be presented.

Set forth below is information concerning each of the nominees.

NAME - - - - -	DIRECTOR SINCE -----	AGE ---	POSITION -----
J. Mack Robinson.....	1993	76	Director, President and Chief Executive Officer
Robert S. Prather, Jr.	1993	54	Director and Executive Vice President -- Acquisitions
William E. Mayher, III.....	1990	60	Chairman of the Board of Directors
Richard L. Boger.....	1991	52	Director
Hilton H. Howell, Jr.	1993	38	Director
Zell Miller.....	1999	67	Director
Howell W. Newton.....	1991	52	Director
Hugh Norton.....	1987	67	Director
Harriett J. Robinson.....	1997	68	Director

J. MACK ROBINSON has been Gray's President and Chief Executive Officer since 1996. Mr. Robinson has been Chairman of the Board of Bull Run Corporation, a diversified company and a principal shareholder of Gray, since 1994, Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1958, President of Atlantic American Corporation, an insurance holding company, from 1995 until 1998 and Chairman of the Board of Atlantic American Corporation since 1974. He is a director of the following companies: Bankers Fidelity Life Insurance Company, American Independent Life Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company and American Safety Insurance Company. He is director emeritus of Wachovia Corporation. He is a member of the Executive Committee and Management Personnel Committee of Gray's board of directors. Mr. Robinson is the husband of Harriett J. Robinson and the father-in-law of Hilton H. Howell.

ROBERT S. PRATHER, JR. has been Executive Vice President -- Acquisitions of Gray since 1996. He has been President and Chief Executive Officer and a director of Bull Run Corporation, a diversified company and principal shareholder of Gray, since 1992. He is a director of the following companies: Host Communications, Inc., Capital Sports Properties, Inc., Universal Sports America, Inc., Rawlings Sporting Goods Company, Inc. and The

Morgan Group, Inc. He is a member of the Executive Committee and the Management Personnel Committee of Gray's board of directors.

WILLIAM E. MAYHER III was a neurosurgeon in Albany, Georgia from 1970 to 1998. He is a director of the following: Medical College of Georgia Foundation, American Association of Neurological Surgeons, Gaston Loughlin, Inc. and Palmyra Medical Centers. Dr. Mayher is a member of the Executive Committee and Management Personnel Committee of Gray's board of directors and has served as Chairman of Gray's board of directors since August 1993.

RICHARD L. BOGER has been President and Chief Executive Officer of Export Insurance Services, Inc., an insurance organization, and a director of CornerCap Group of Funds, a "series" investment company since prior to 1992. Mr. Boger is a member of the Executive Committee of Gray's board of directors and is the Chairman of the Management Personnel Committee of Gray's board of directors.

HILTON H. HOWELL, JR. has been President and Chief Executive Officer of Atlantic American Corporation, an insurance holding company, since 1995 and Executive Vice President of Atlantic American Corporation from 1992 to 1995. He has been Executive Vice President and General Counsel of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1991, and Vice Chairman and Executive Vice President of Bankers Fidelity Life Insurance Company and Georgia Casualty & Surety Company since 1992. He has been a director, Vice President and Secretary of Bull Run Corporation since 1994. He is a director of the following companies: Atlantic American Corporation, Bankers Fidelity Life Insurance Company, American Independent Life Insurance Company, Delta Life Insurance Company, Delta Fire and Casualty Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company, American Safety Insurance Company, Association Casualty Insurance Company and Association Risk Management General Agency. He is the son-in-law of J. Mack Robinson and Harriett J. Robinson.

ZELL MILLER was Governor of Georgia from January 1991 to January 1999. He is Chairman of the Board of Kollmann (USA) Inc. and a director of the following companies: Norfolk Southern Corporation, Post Properties, Inc., Georgia Power Company, United Community Banks, Inc. and Law Companies Group. He is a professor of Young Harris College, a Distinguished Professor of Higher Education of the University of Georgia and a Presidential Distinguished Fellow of Emory University. Governor Miller is a member of the Audit Committee of Gray's board of directors.

HOWELL W. NEWTON has been President and Treasurer of Trio Manufacturing Co., a textile manufacturing company, since 1978. Mr. Newton is Chairman of the Audit Committee of Gray's board of directors.

HUGH NORTON has been President of Norco, Inc., an insurance agency, since 1973. He is one of the founders and directors of Community Bank of Georgia. Mr. Norton is also a real estate developer in Destin, Florida. He is a member of the Management Personnel Committee of Gray's board of directors.

HARRIETT J. ROBINSON has been a director of Atlantic American Corporation since 1989 and a director of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1967. Mrs. Robinson is the wife of J. Mack Robinson and the mother-in-law of Hilton H. Howell, Jr.

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

Section 16(a) of the Securities Exchange Act of 1934 requires the directors, executive officers and persons who own more than 10 percent of a registered class of a company's equity securities to file with the SEC initial reports of ownership (Form 3) and reports of changes in ownership (Forms 4 and 5) of such class of equity securities. Such officers, directors and greater than 10 percent shareholders of a company are required by SEC regulations to furnish the company with copies of all such Section 16(a) reports that they file.

To Gray's knowledge, based solely on its review of the copies of such reports furnished to Gray during the year ended December 31, 1998, all Section 16(a) filing requirements applicable to its officers, directors and 10 percent beneficial owners were met.

BOARD COMMITTEES AND MEMBERSHIP

The Gray board has an Executive Committee. The Executive Committee held no meetings during 1998. The members of the Executive Committee are Messrs. Robinson, Prather, Mayher and Boger.

The Gray board has an Audit Committee, the purpose of which is to review and evaluate the results and scope of the audit and other services provided by Gray's independent auditors, as well as Gray's accounting principles and system of internal accounting controls, and to review and approve any transactions between Gray and its directors, officers or significant shareholders. The Audit Committee held two meetings during 1998. The members of the Audit Committee are Messrs. Miller and Newton.

The Gray board has a Management Personnel Committee, the purpose of which is to make recommendations with respect to executive salaries, bonuses and compensation and to serve as the nominating committee with respect to the principal officers and other committees of the board of directors, as well as making nominations respecting membership of the board of directors of Gray. The Management Personnel Committee will consider recommendations for nominees for directorship submitted by shareholders. Shareholders wishing to recommend director candidates for consideration by the Management Personnel Committee may do so by writing to the Secretary of Gray, giving the candidate's name, biographical data and qualifications. The Management Personnel Committee held five meetings in 1998, and its members are Messrs. Robinson, Prather, Mayher, Boger and Norton.

Gray does not have a nominating committee. The Gray board held four meetings during 1998. During 1998, each of the directors attended at least 75% of the aggregate number of meetings of the board and meetings of all committees of the board on which such directors served.

SHARE OWNERSHIP

The following table sets forth information regarding the ownership of Gray class A common stock and class B common stock as of August 9, 1999 by (1) any person who is known to Gray to be the beneficial owner of more than five percent of the Gray class A common stock or class B common stock, (2) all directors, (3) all executive officers named in the Summary Compensation Table and (4) all directors and executive officers as a group.

NAME	CLASS A COMMON STOCK BENEFICIALLY OWNED		CLASS B COMMON STOCK BENEFICIALLY OWNED		COMBINED VOTING POWER AS A PERCENTAGE OF COMMON STOCK
	SHARES	PERCENT	SHARES	PERCENT	
Robert A. Beizer(1).....	--	--	33,635	*	*
Richard L. Boger(1).....	11,651	*	13,744	*	*
Joseph A. Carriere.....	6,075	*	--	--	*
Hilton H. Howell, Jr.(1),(2),(3),(4)..	3,566,782	45.7	36,500	*	43.0
Wayne M. Martin(1).....	362	*	12,063	*	*
William E. Mayher, III(1).....	13,500	*	18,750	*	*
Zell Miller(1).....	--	--	7,500	*	*
Howell W. Newton(1).....	2,625	*	9,500	*	*
Hugh Norton(1).....	13,500	*	18,750	*	*
Robert S. Prather, Jr.(1),(2),(5),(6).....	3,170,073	40.8	99,800	1.9	38.4
Harriett J. Robinson(1),(2),(4),(7)...	4,575,382	56.6	192,400	3.7	53.4
J. Mack Robinson(1),(2),(4),(5),(8)...	4,575,382	56.6	192,400	3.7	53.4
James C. Ryan(5).....	--	--	2,019	*	*
Thomas J. Stultz(1).....	2,250	*	24,500	*	*
Bull Run Corporation(9).....	2,931,397	38.0	11,750	*	35.7
The Capital Group Companies, Inc.(10)..	--	--	401,600	7.8	*
Mario J. Gabelli(11).....	--	--	1,243,399	24.2	1.7
George H. Nader(12).....	359,998	5.3	--	0.0	4.9
Shapiro Capital Management Company, Inc.(13).....	11,350	*	1,693,039	32.9	2.5
Standish Ayer and Wood, Inc.(14).....	--	--	474,100	9.2	*
All directors and executive officers as a group(15).....	4,937,846	61.1	439,750	8.1	57.8

* Less than 1%

(1) Includes options to purchase Gray class B common stock as follows: each of Messrs. Boger, Howell, Mayher, Newton, Norton, Miller and Mrs. Robinson -- 7,500 shares, Mr. Robinson -- 75,000 shares, Mr. Prather -- 75,000 shares, Mr. Beizer -- 33,000 shares, Mr. Martin -- 11,250 shares and Mr. Stultz -- 22,500 shares. Excludes Mr. Beizer's options to purchase 21,000 shares of Gray class B common stock that are not exercisable within 60 days of August 9, 1999.

(2) Includes 2,017,647 shares of Gray class A common stock and 11,750 shares of Gray class B common stock owned by Bull Run Corporation and warrants to purchase 933,750 shares of Gray class A common stock owned by Bull Run Corporation as described in footnote (9) below, because Messrs. Howell, Prather and Robinson are directors and officers of Bull Run Corporation and Messrs. Prather and Robinson are principal shareholders of Bull Run Corporation and Mrs. Robinson is the spouse of Mr. Robinson and, as such, may be deemed to be beneficial owners of such shares.

Each of Messrs. Howell, Prather and Robinson and Mrs. Robinson disclaims beneficial ownership of the shares owned by Bull Run Corporation. Excludes (1) warrants owned by Bull Run Corporation to purchase 172,500 shares of Gray class A common stock and warrants to purchase 100,000 shares of Gray class B common stock that are not exercisable within 60 days of August 9, 1999 and (2) 1,000 shares of Gray series A preferred stock and 175 shares of Gray series B preferred stock owned by Bull Run Corporation and 175 shares of Gray series B preferred stock owned by Mrs. Robinson's husband and his affiliates, which securities are non-voting and are not convertible into Gray class A common stock or Gray class B common stock.

- (3) Includes 58,575 shares of Gray class A common stock owned by Mr. Howell's wife, as to which shares he disclaims beneficial ownership. Excludes 105,000 shares of Gray class A common stock and 5,000 shares of Gray class B common stock held in trust for Mr. Howell's wife.
- (4) Includes as to Messrs. Robinson and Howell and Mrs. Robinson, an aggregate of 490,060 shares of Gray class A common stock and 6,000 shares of Gray class B common stock owned by certain companies of which Mr. Howell is an officer and a director. Mr. Robinson is also an officer, director and a principal or sole shareholder and Mrs. Robinson is also a director of these companies. Also includes warrants to purchase 31,500 shares of Gray class A common stock owned by one of the above described companies. Excludes warrants to purchase 6,000 shares of Gray class A common stock that are not exercisable within 60 days of August 9, 1999.
- (5) Excludes options to purchase Gray class B common stock that are not exercisable within 60 days of August 9, 1999 as follows: Mr. Prather -- 41,000 and Mr. Ryan -- 11,250. Also excludes Mr. Robinson's and Mr. Prather's options to purchase 10,000 and 9,337 shares, respectively, of Gray class A common stock that are not exercisable within 60 days of August 9, 1999.
- (6) Includes 225 shares of Gray class A common stock and 100 shares of Gray class B common stock owned by Mr. Prather's wife, as to which shares he disclaims beneficial ownership.
- (7) Includes: (1) 381,975 shares of Gray class A common stock, 79,750 shares of Gray class B common stock and warrants to purchase 63,000 shares of Gray class A common stock owned by Mrs. Robinson's husband, as to which securities Mrs. Robinson disclaims beneficial ownership; (2) warrants to purchase 94,500 shares of Gray class A common stock; (3) 256,950 shares of Gray class A common stock, 10,000 shares of Gray class B common stock and warrants to purchase 126,000 shares of Gray class A common stock owned by Mrs. Robinson, as trustee for her daughters, as to which securities Mrs. Robinson disclaims beneficial ownership. Excludes: (1) options held by Mrs. Robinson's husband to purchase 10,000 shares of Gray class A common stock and 41,000 shares of Gray class B common stock which are not exercisable within 60 days of August 9, 1999; (2) warrants held by Mrs. Robinson, Mrs. Robinson's husband and certain of his affiliates to purchase 60,000 shares of Gray class A common stock that are not exercisable within 60 days of August 9, 1999; and (3) 175 shares of Gray series B preferred stock owned by Mrs. Robinson's husband and his affiliates, which securities are nonvoting and are not convertible into Gray class A common stock or class B common stock. Mrs. Robinson's address is 3500 Tuxedo Road, NW, Atlanta, Georgia 30305.

- (8) Includes: (1) 436,950 shares of Gray class A common stock and 12,400 shares of Gray class B common stock owned by Mr. Robinson's wife, directly and as trustee for their daughters, warrants to purchase 94,500 shares of Gray class A common stock held by Mr. Robinson's wife, and warrants to purchase 126,000 shares of Gray class A common stock held by Mr. Robinson's wife, as trustee for their daughters, as to which securities Mr. Robinson disclaims beneficial ownership; (2) warrants to purchase 63,000 shares of Gray class A common stock held by Mr. Robinson. Excludes: (1) options held by Mr. Robinson to purchase 10,000 shares of Gray class A common stock and 40,000 shares of Gray class B common stock which are not exercisable within 60 days of August 9, 1999; (2) warrants held by Mrs. Robinson, Mr. Robinson and certain of his affiliates to purchase 60,000 shares of Gray class A common stock that are not exercisable within 60 days of August 9, 1999; and (3) 175 shares of Gray series B preferred stock owned by Mr. Robinson and his affiliates, which securities are nonvoting and are not convertible into Gray class A common stock or class B common stock. Mr. Robinson's address is 3500 Tuxedo Road, NW, Atlanta, Georgia 30305.
- (9) Includes warrants to purchase 933,750 shares of Gray class A common stock which are exercisable within 60 days. Excludes (1) 1,000 shares of Gray series A preferred stock and 175 shares of Gray series B preferred stock, none of which is voting or convertible into shares of Gray class A common stock or class B common stock and (2) warrants to purchase 172,500 shares of Gray class A common stock and 100,000 shares of Gray class B common stock that are not exercisable within 60 days of August 9, 1999. The address of Bull Run Corporation is 4370 Peachtree Road NE, Atlanta, Georgia 30319.
- (10) This information was furnished to Gray on a Schedule 13G filed by Capital Guardian Trust Company. Capital Guardian Trust Company, a wholly owned subsidiary of The Capital Group Companies, Inc., is the beneficial owner of these shares as a result of its serving as the investment manager of various institutional accounts, but has authority to vote only 167,750 shares of Gray class B common stock. The address of Capital Guardian Trust Company is 11100 Santa Monica Boulevard, Los Angeles, California 90025.
- (11) This information was furnished to Gray on a Schedule 13D filed by Gabelli Funds, Inc. and also by Mario J. Gabelli and various entities which he directly or indirectly controls or for which he acts as chief investment officer. The Schedule 13D reports the beneficial ownership of Gray class B common stock as follows: Gabelli Funds, LLC -- 536,300 shares; GAMCO Investors, Inc. -- 677,349 shares; and Gabelli International Limited -- 24,750 shares and Gabelli Advisors 5,000 shares. GAMCO Investors, Inc. only has the authority to vote 646,599 of the shares beneficially held by it. The address of Mr. Gabelli and Gabelli Funds, Inc. is One Corporate Center, Rye, New York 10580.
- (12) Mr. Nader's address is P.O. Box 271, 1011 Fifth Avenue, West Point, Georgia 31833.
- (13) This information was furnished to Gray by a representative of Shapiro Capital Management Company, Inc., an investment adviser. The address of Shapiro Capital Management Company, Inc. is 3060 Peachtree Road NW, Atlanta, Georgia 30306.
- (14) This information was furnished to Gray on a Schedule 13G filed by Standish, Ayer & Wood, Inc., One Financial Center, Boston, Massachusetts 02111-2662.

- (15) Includes all options and warrants to purchase Gray class A or class B common stock which are exercisable within 60 days of August 9, 1999 and excludes such options and warrants not exercisable within the same 60 day period.

EXECUTIVE COMPENSATION

The following table sets forth a summary of the compensation of Gray's President and Chief Executive Officer and the other executive officers whose annual compensation exceeded \$100,000 during the year ended December 31, 1998 (the "named executives").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS	
		SALARY(\$)	BONUS(\$)	SECURITIES UNDERLYING OPTIONS SARS(#)(1)	ALL OTHER COMPENSATION(\$)
J. Mack Robinson(3).....	1998	72,308	--	125,000(2)	13,000(4)
President, Chief	1997	--	--	75,000(5)	14,620(4)
Executive Officer and a Director	1996	--	--	11,250(6)	9,300(4)
Robert S. Prather, Jr.(7).....	1998	--	--	125,337(2)	13,000(4)
Executive Vice President -- Acquisitions and a Director	1997	--	--	75,000(5)	14,620(4)
	1996	--	--	11,250(6)	8,800(4)
Robert A. Beizer.....	1998	215,000	--	21,000(2)	13,080(9)
Vice President -- Law and Development	1997	210,000	--	10,500	6,619(9)
	1996	169,231	--	22,500	--
James C. Ryan(10).....	1998	34,269	5,000	22,500(2)	15,603(11)
Vice President -- Finance and Chief Financial Officer					
Thomas J. Stultz.....	1998	196,000	35,000	22,500(2)	7,166(8)
Vice President, President -- Publishing Division	1997	187,000	25,000	22,500(5)	59,199(8)
	1996	152,788	150,000	--	--
Wayne M. Martin(12).....	1998	219,326	170,454	11,250(2)	8,829(13)
Regional Vice President -- Television					
Joseph A. Carriere(14)....	1998	125,524	--	--(2)	203,766(15)
Vice President -- Television	1997	187,000	--	7,500(16)	6,245(17)
	1996	172,692	100,000	--	5,698(17)

(1) On August 20, 1998, the board of directors declared a 50% stock dividend, payable on September 30, 1998, to shareholders of record of the Gray class A common stock and class B common stock on September 16, 1998. This stock dividend was effected by means of a three-for-two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

(2) These awards are set forth below in detail in the table titled "Option/SAR Grants in 1998."

- (3) Mr. Robinson was appointed President and Chief Executive Officer in September 1996 but received no salary for this position until September 1998. Mr. Robinson is currently compensated at an annual salary of \$200,000.
- (4) Represents compensation paid for services rendered as a member of Gray's board of directors.
- (5) Represents stock options to purchase Gray class B common stock pursuant to Gray's 1992 Long Term Incentive Plan. This 1997 stock option grant was replaced by a repricing grant, effective December 11, 1998. The December 11, 1998 grant repriced the 1997 grant at a price which approximated the market price of the Gray class B common stock on December 11, 1998. The repriced grant was included in 1998 stock options granted as a 1998 grant.
- (6) Represents stock options to purchase Gray class B common stock under the Non-Employee Director Stock Option Plan.
- (7) Mr. Prather became an officer in September 1996.
- (8) \$4,000, \$1,963 and \$1,203 represent payments or accruals by Gray in 1998 for matching contributions to Gray's 401(k) plan, term life insurance premiums and long term disability premiums, respectively. \$54,700, \$3,596 and \$903 represent payments or accruals by Gray in 1997 for relocation costs, matching contributions to Gray's 401(k) plan and long term disability premiums, respectively.
- (9) \$4,000, \$5,589 and \$3,491 represent payments or accruals by Gray in 1998 for matching contributions to Gray's 401(k) plan, term life insurance premiums and long term disability premiums, respectively. \$4,000 and \$2,619 represent payments or accruals by Gray in 1997 for premiums, respectively.
- (10) Mr. Ryan joined Gray on October 1, 1998, compensated at an annual salary of \$135,000.
- (11) Represents payments or accruals by Gray for relocation costs.
- (12) Mr. Martin has served as Gray's Regional Vice-President -- Television since July 1998. He was also appointed President of WVLTV-TV, the Company's subsidiary in Knoxville, Tennessee. Prior to his appointment as an executive officer, Mr. Martin has served as President of Gray Kentucky Television, Inc., a subsidiary of the Company, which operates WKYT-TV, in Lexington, Kentucky and WYMT-TV, in Hazard, Kentucky.
- (13) \$4,000, \$3,249 and \$1,580 represent payments or accruals by Gray for matching contributions to Gray's 401(k) plan, term life insurance premiums and long term disability premiums, respectively.
- (14) Mr. Carriere resigned, effective August 1, 1998.
- (15) \$190,000, \$2,919, \$5,291 and \$5,556 represent payments or accruals by Gray for consulting, matching contributions to Gray's 401(k) plan, term life insurance premiums and health insurance premiums, respectively.
- (16) Upon Mr. Carriere's resignation, this unvested stock option grant was forfeited.
- (17) \$4,000 and \$2,245 represent payments or accruals by Gray in 1997 for matching contributions to Gray's 401(k) plan and term life insurance premiums, respectively. \$3,750 and \$1,948 represent payment or accruals by Gray in 1996 for matching contributions to Gray's 401(k) plan and term life insurance premiums, respectively.

STOCK OPTIONS GRANTED

The following table contains information on stock options granted during the year ended December 31, 1998. Under Gray's 1992 Long Term Incentive Plan, all officers and key employees are eligible for grants of stock options and other stock-based awards. Options granted are exercisable over a three-year period beginning on the second anniversary of the grant date and expire one month after termination of employment. The total number of shares issuable under the Incentive Plan is not to exceed 900,000 shares, of which 300,000 shares are Gray class A common stock and 600,000 shares are Gray class B common stock, subject to adjustment in the event of any change in the outstanding shares of such stock by reason of a stock dividend, stock split, recapitalization, acquisition, consolidation or other similar changes generally affecting shareholders. See "Proposal 3: Amendment of the Gray 1992 Long Term Incentive Plan" for information concerning a proposal to amend the Incentive Plan to increase the number of shares of Gray class B common stock issuable thereunder.

The Incentive Plan is administered by the Incentive Plan Committee which consists of members of the Management Personnel Committee of the board of directors who are not eligible to participate under the Incentive Plan. The Incentive Plan is intended to provide additional incentives and motivation for Gray's employees. The Incentive Plan Committee, by majority action thereof, is authorized in its sole discretion to determine the individuals to whom the benefits will be granted, the type and amount of such benefits and the terms thereof; and to prescribe, amend and rescind rules and regulations relating to the Incentive Plan.

On August 20, 1998, the board of directors declared a 50% stock dividend, payable on September 30, 1998, to shareholders of record of the Gray class A common stock and class B common stock on September 16, 1998. This stock dividend was effected by means of a three-for-two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

OPTION/SAR GRANTS IN 1998

	CLASS OF COMMON STOCK	NUMBER OF UNDERLYING SECURITIES OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1998	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)	
						5%(\$)	10%(\$)
J. Mack Robinson.....	Class A	10,000(2)	1.8	17.81	11/19/03	49,213	108,747
	Class B	40,000(2)	7.1	14.00	11/19/03	154,718	341,886
	Class B	75,000(3)	13.3	14.50	9/25/02	234,363	504,709
Robert S. Prather, Jr...	Class A	9,337(2)	1.7	17.81	11/19/03	45,950	101,537
	Class B	41,000(2)	7.3	14.00	11/19/03	158,586	350,433
	Class B	75,000(3)	13.3	14.50	9/25/02	234,363	504,709
Robert A. Beizer.....	Class B	10,500(4)	1.9	16.08	2/12/03	46,647	103,079
	Class B	10,500(5)	1.9	14.50	2/12/03	42,064	92,950
James C. Ryan.....	Class B	11,250(6)	2.0	16.13	10/5/03	50,119	110,750
	Class B	11,250(5)	2.0	14.50	10/5/03	45,068	99,589
Thomas J. Stultz.....	Class B	22,500(3)	4.0	14.50	9/25/02	70,309	151,413
Wayne M. Martin.....	Class B	11,250(3)	2.0	14.50	9/25/02	35,154	75,706
Joseph A. Carriere.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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- (1) Amounts reported in these columns represent amounts that may be realized upon exercise of options immediately prior the expiration of their term assuming the specified compounded rates of appreciation (5% and 10%) on the Gray class A common stock or class B common stock over the term of the options. These numbers are calculated based on rules promulgated by the SEC and do not reflect Gray's estimate of future stock price growth. Actual gains, if any, on stock option exercises and Gray class A common stock or Gray class B common stock holdings will be dependent on the timing of such exercise and the future performance of the Gray class A common stock or Gray class B common stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the option holder.
 - (2) Stock options granted effective November 19, 1998 pursuant to the Incentive Plan.
 - (3) Effective December 11, 1998, Gray repriced certain Gray class B common stock option grants made in 1997 pursuant to the Incentive Plan, at a price which approximated the market price of Gray's class B common stock on that day. These repriced grants effectively replaced the stock option grants made on September 25, 1997.
 - (4) Stock options granted effective February 12, 1998 pursuant to Gray's Incentive Plan that were repriced on December 11, 1998 as described in note (5) below.
 - (5) Effective December 11, 1998, Gray repriced certain Gray class B common stock option grants made in 1998 pursuant to the Incentive Plan, at a price which approximated the market price of the Gray class B common stock on that day. These repriced grants effectively replaced the earlier 1998 stock option grants.
 - (6) Stock options granted effective October 5, 1998 pursuant to the Incentive Plan. This stock option grant was replaced on December 11, 1998, by a repricing grant as described in note (5) above.

STOCK OPTIONS EXERCISED

The following table sets forth information about stock options that were exercised during 1998 and the number of shares and the value of grants outstanding as of December 31, 1998 for each named executive.

AGGREGATED OPTION EXERCISES IN 1998
AND DECEMBER 31, 1998 OPTION VALUES

NAME	CLASS OF COMMON STOCK	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/98		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/98 (\$)(1)	
				EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
J. Mack Robinson(2).....	Class A	--	--	--	10,000	--	5,000
	Class B	11,250	61,875	--	115,000	--	--
Robert S. Prather, Jr.(2).	Class A	--	--	--	9,337	--	4,669
	Class B	11,250	61,875	--	116,000	--	--
Robert A. Beizer.....	Class B	--	--	22,500	21,000	69,845	12,469
James C. Ryan.....	Class B	--	--	--	11,250	--	--
Thomas J. Stultz.....	Class B	--	--	--	22,500	--	--
Wayne M. Martin(3).....	Class A	6,750	68,531	--	--	--	--
	Class B	--	--	--	11,250	--	--
Joseph A. Carriere(3).....	Class A	5,625	65,547	--	--	--	--

(1) Value is based on the closing price of Gray class A common stock and class B common stock of \$18.31 and \$13.69, respectively at December 31, 1998, less the exercise price.

(2) On December 12, 1996, Gray granted each of Messrs. Robinson and Prather an option to purchase 11,250 shares of Gray class B common stock, at an exercise price of \$10.58 per share, pursuant to Gray's Non-employee Director Stock Option Plan. The options were exercised in 1998.

(3) On March 30, 1995, Gray granted Messrs. Martin and Carriere an option to purchase 6,750 and 5,625 shares of Gray class A common stock, respectively, at an exercise price of \$8.89 per share, pursuant to the Incentive Plan. The options were exercised in 1998.

SUPPLEMENTAL PENSION PLAN

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

RETIREMENT PLAN

Gray sponsors a defined benefit pension plan, intended to be tax qualified, for certain of its employees and the employees of any of its subsidiaries which have been designated

as participating companies under the plan. A participating employee who retires on or after attaining age 65 and who has completed five years of service upon retirement may be eligible to receive during his lifetime, in the form of monthly payments, an annual pension equal to (1) 22% of the employee's average earnings for the highest five consecutive years during the employee's final 10 years of employment multiplied by a factor, the numerator of which is the employee's years of service credited under the plan, plus (2) 0.9% of the employee's monthly average earnings for the highest five consecutive years in the employee's final 10 years of employment added to 0.6% of monthly average earnings in excess of Social Security covered compensation, and multiplied by the employee's years of service credited under the plan after 1993, with a maximum of 25 years minus years of service credited under (1) above. For participants as of December 31, 1998, there was a minimum benefit equal to the projected benefit. For purposes of illustration, pensions estimated to be payable upon retirement of participating employees in specified salary classifications are shown in the following table:

REMUNERATION(1)	YEARS OF SERVICE					
	10	15	20	25	30	35
\$ 15,000.....	\$ 1,335	\$ 1,995	\$ 2,655	\$ 3,315	\$ 3,300	\$ 3,300
25,000.....	2,225	3,325	4,425	5,525	5,500	5,500
50,000.....	5,016	7,216	9,416	11,616	11,000	11,000
75,000.....	7,991	11,291	14,591	17,891	16,500	16,500
100,000.....	10,966	15,366	19,766	24,166	22,000	22,000
150,000.....	16,916	23,516	30,116	36,716	33,000	33,000
200,000.....	19,416	28,216	37,016	45,816	36,667	37,714
250,000 and above.....	20,262	29,908	39,554	49,199	40,191	41,339

(1) Five-year average annual compensation.

Employees may become participants in the plan, provided that they have attained age 21 and have completed one year of service. Average earnings are based upon the salary paid to a participating employee by a participating company. Pension compensation for a particular year as used for the calculation of retirement benefits includes salaries, overtime pay, commissions and incentive payments received during the year and the employee's contribution to the Gray Capital Accumulation Plan. Pension compensation for 1998 differs from compensation reported in the Summary Compensation Table in that pension compensation includes any annual incentive awards received in 1998 for services in 1997 rather than the incentive awards paid in 1999 for services in 1998. The maximum annual compensation considered for pension benefits under the plan in 1998 was \$160,000.

As of December 31, 1998, the named executive officers of Gray have the following years of credited service:

NAME	YEARS OF CREDITED SERVICE
Thomas J. Stultz.....	2
Robert A. Beizer.....	2
Wayne M. Martin.....	4
Joseph A. Carriere.....	4

CAPITAL ACCUMULATION PLAN

Effective October 1, 1994, Gray adopted the Gray Communications Systems, Inc. Capital Accumulation Plan for the purpose of providing additional retirement benefits for

substantially all employees. The Capital Accumulation Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code of 1986, as amended.

Contributions to the Capital Accumulation Plan are made by employees. Gray matches a percentage of each employee's contribution which does not exceed 6% of the employee's gross pay. The percentage match is declared by the board of directors before the beginning of each Capital Accumulation Plan Year and was made with a contribution of Gray class A common stock through the year ended December 31, 1996 and since 1996 has been and will be made with Gray class B common stock. The percentage match declared for the year ended December 31, 1998 was 50%. Gray's matching contributions vest based upon an employee's number of years of service, over a period not to exceed five years.

COMPENSATION OF DIRECTORS

The standard arrangement for directors' fees is set forth in the table below.

DESCRIPTION - - - - -	AMOUNT - - - - -
Chairman of the Board annual retainer fee.....	\$18,000
Director's annual retainer fee.....	\$12,000
Director's fee per board of directors meeting.....	\$ 1,000
Chairman of the Board fee per board of directors meeting....	\$ 1,200
Committee Chairman fee per committee meeting.....	\$ 1,200
Committee member fee per committee meeting.....	\$ 1,000

Directors are paid 40% of the above fee arrangement for participation by telephone in any meeting of the board of directors or any committee thereof.

EMPLOYMENT AGREEMENTS

Robert A. Beizer and Gray entered into an employment agreement, dated February 12, 1996, for a two-year term which automatically extends for three successive one-year periods, subject to termination provisions. The agreement provides that Mr. Beizer shall be employed as Vice President for Law and Development of Gray with an initial annual base salary of \$200,000 and a grant of options to purchase 22,500 shares of Gray class A common stock with an exercise price of \$12.917 per share under the Incentive Plan at the inception of his employment. The agreement also provides that Mr. Beizer's base salary will be increased yearly based upon a cost of living index and he will receive non-qualified options to purchase 10,500 shares of Gray class B common stock annually during the term of the agreement at an exercise price per share equal to the fair market value of the Gray class B common stock on the date of the grant. In December 1996, the board of directors approved an amendment to Mr. Beizer's contract which replaced the initial option grant of 22,500 shares of Gray class A common stock with the grant of an option to purchase 22,500 shares of Gray class B common stock with an exercise price of \$10.583 per share. On February 12, 1997, 1998, and 1999, Mr. Beizer was granted options to purchase an additional 10,500 shares of Gray class B common stock at \$12.50, \$16.08 and \$14.1875 per share, respectively. All options granted are exercisable over a three-year period beginning upon the second anniversary of the grant date. If there is a "change of control" of Gray, Mr. Beizer will be paid a lump sum amount equal to his then current base salary for the remaining term of the agreement and will be granted any remaining stock options to which he would have been entitled. For purposes of the

agreement, "change of control" is defined as any change in the control of Gray that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Securities Exchange Act of 1934. Mr. Beizer has agreed that during the term of his agreement and for two years after the termination of the agreement he will be subject to non-competition provisions.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Richard L. Boger, William E. Mayher III, Hugh Norton, Robert S. Prather, Jr. and J. Mack Robinson are the members of the Management Personnel Committee which serves as the Compensation Committee. Messrs. Robinson and Prather are President and Chief Executive Officer and Executive Vice President -- Acquisitions of Gray, respectively.

J. Mack Robinson, President of the Company serves on the Compensation Committee of Bull Run Corporation. Mr. Robinson and Robert S. Prather, Jr., President of Bull Run and Executive Vice President -- Acquisitions of Gray serve on the Compensation Committee of Gray.

Gray Kentucky Television, Inc., a subsidiary of Gray, is a party to a rights sharing agreement with Host Communications, Inc. and certain other parties not affiliated with Gray, pursuant to which the parties agreed to exploit Host's rights to broadcast and market certain University of Kentucky football and basketball games and related activities. Pursuant to such agreement, Gray Kentucky Television is licensed to broadcast certain University of Kentucky football and basketball games and related activities. Under this agreement, Gray Kentucky Television also provides Host with production and marketing services and Host provides accounting and various marketing services. During the year ended December 31, 1998, Gray received approximately \$100,000 from this joint venture.

Bull Run currently owns 51.5% of the outstanding common stock of Capital Sports Properties, Inc. Capital's assets consist of all of the outstanding preferred stock of Host and 49.0% of Host's outstanding common stock. Bull Run's direct common equity ownership in Host, plus Bull Run's indirect common equity ownership in Host through its investment in Capital, was 32.6% as of December 31, 1998. Robert S. Prather, Jr., Executive Vice President -- Acquisitions and a member of Gray's board of directors, is a member of the board of directors of both Capital, Bull Run and Host.

Gray's board of directors approved payments to Bull Run of a finders fee of approximately \$1,980,000 in connection with the acquisition of all of the outstanding capital stock of Busse Broadcasting Corporation. The purchase price was \$112,000,000 plus Busse's cash balance as of June 30, 1998. The purchase price includes the assumption of Busse's indebtedness, including its 11 5/8% Senior Secured Notes due 2000. Immediately prior to Gray's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV from Busse in exchange for the assets of WALB-TV, Inc., Gray's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, Gray received the assets of WEAU, which were valued at \$66,000,000 and approximately \$12,000,000 in cash for a total value of \$78,000,000. The finders fee was allocated at \$1,200,000 for the Busse transaction and \$780,000 for the WALB transaction. For advisory services rendered by Bull Run to Gray in connection with the acquisition of The Goshen News, Gray paid Bull Run \$167,000.

For advisory services rendered by Bull Run to Gray in connection with the proposed acquisitions of KWTX, Brazos and KXII, Gray paid Bull Run \$400,000 on May 19, 1999,

\$800,000 on August 11, 1999 and will pay Bull Run an additional \$190,000 upon the consummation of the acquisitions.

Gray paid cash dividends on its series A preferred stock and series B preferred stock of \$800,000 and \$63,750, respectively to Bull Run in 1998. Bull Run is the only owner of the series A preferred stock and owns 50% of the outstanding series B preferred stock. Mr. Robinson and certain affiliates own the remaining 50% of the series B preferred stock. In addition, Gray issued 25.4692 shares of series B preferred stock to Bull Run and 25.4692 shares of series B preferred stock pro rata to Mr. Robinson and certain affiliates as dividends on the series B preferred stock in 1998. Each share of series B preferred stock is valued at \$10,000 per share. Of the total amount of 1,110.9384 series B preferred stock outstanding during 1998, Gray redeemed 760.9384 shares pro rata at a total redemption price of \$7,609,384.

Gray executed an option agreement with Bull Run in March 1999, whereby Gray has the option to purchase Bull Run's investment in the common stock of Sarkes Tarzian, Inc., an operator of two broadcast television stations and four radio stations. Upon exercise of the option, Gray will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment plus related costs. In connection with the option agreement, Gray granted to Bull Run warrants to purchase up to 100,000 shares of Gray class B common stock at \$13.625 per share which was the closing price of such stock on the date of grant. The warrants will vest immediately upon Gray's exercise of its option to purchase the Tarzian investment. The option agreement expired on May 31, 1999; however, Gray and Bull Run extended the option period through September 30, 1999 and Gray paid Bull Run \$266,800 for such extension. The option period may be extended, at Gray's election, in additional 30-day increments for a fee of \$66,700 per extension.

REPORT OF THE MANAGEMENT PERSONNEL COMMITTEE

Gray's executive compensation program is administered by the Management Personnel Committee of the board of directors.

The goals of Gray's executive compensation program for 1998 were to attract, retain, motivate and reward qualified persons serving as executive officers. To achieve such goals Gray relies primarily on salaries, bonuses, options and other compensation for each of Gray's executive officers, except that the salary of Mr. Beizer is specified in his employment agreement with Gray. Under current policy, the chief executive officer of Gray determines the recommended annual compensation level, including bonuses, for all other officers of Gray and its subsidiaries, and then submits these recommendations to the Management Personnel Committee for its review and approval. Such determinations of the Management Personnel Committee are reported to the full board, which then has the opportunity to consider and amend such determinations concerning the compensation payable to executive officers. In 1998, the full board approved the determinations of the Management Personnel Committee with respect to compensation without making any changes thereto. The Management Personnel Committee's policy for determining an executive's salary, bonus and stock option grants is based on the responsibility of such executive, his or her impact on the operations and profitability of Gray or the business unit for which such executive has operating responsibility and the knowledge and experience of such executive.

In 1998, the Management Personnel Committee utilized the foregoing criteria to determine executive salaries, bonuses and option grants and such salaries, bonuses and

option grants are consistent with the foregoing policy. An executive's annual bonus is based on a percentage of his or her annual base salary. These considerations are subjective in nature and the Management Personnel Committee does not assign relative weights thereto. For 1998, bonuses ranged from 0% to 78% of an executive's base salary. Whether or not a bonus is in fact earned by an executive is linked to the attainment, by Gray or the business unit for which such executive has operating responsibility, of predetermined operating profit targets based on budgeted operating revenues (which is an objective analysis) and the individual's contribution to Gray or the business unit (which is a subjective analysis). The operating profit targets are approved annually by the Management Personnel Committee. When measuring an executive's individual contribution and performance, the Management Personnel Committee examines quantitative factors, as well as qualitative factors that necessarily involve a subjective judgment by the Management Personnel Committee. In making such subjective determination, the Management Personnel Committee does not base its determination on any single performance factor nor does it assign relative weights to factors, but considers a mix of factors, including evaluations of superiors, and evaluates an individual's performance against such mix in absolute terms in relation to other executives at Gray. In deciding whether or not to grant an option to an individual and in determining the number of shares subject to an option so granted, the Management Personnel Committee takes into account subjective considerations, including the level of such executive's position and the individual's contribution to Gray. Although the Management Personnel Committee believes that its compensation structure is similar to that of other comparable communications companies, it did not specifically compare such structure with that of other companies in 1998.

Mr. Robinson's annual compensation was set by the Management Personnel Committee at \$200,000 per annum. In addition, he was awarded options for the purchase of up to 10,000 shares of Gray class A common stock and 40,000 shares of Gray class B common stock in recognition of Gray's overall performance, record of increase in shareholder value, success in meeting strategic objectives and the Chief Executive Officer's personal leadership and accomplishments.

Mr. Prather does not receive an annual salary as Executive Vice President -- Acquisitions, however, in 1998 he was granted options to purchase 9,337 shares of Gray class A common stock and 41,000 shares of Gray class B common stock in recognition of Gray's overall performance, success in meeting strategic objectives and his leadership and accomplishments.

Submitted by Management Personnel Committee of the board of directors

Richard L. Boger, Chairman
 William E. Mayher, III
 Robert S. Prather, Jr.
 Hugh Norton
 J. Mack Robinson

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

J. Mack Robinson, President, Chief Executive Officer and a director of Gray, is Chairman of the Board of Bull Run and the beneficial owner of approximately 30.7% of the outstanding shares of common stock of Bull Run, including certain shares as to which Mr. Robinson disclaims beneficial ownership. Robert S. Prather, Jr., Executive Vice President-Acquisitions and a director of Gray, is President, Chief Executive Officer and a

director of Bull Run corporation and the beneficial owner of approximately 13.3% of the outstanding shares of Bull Run common stock, including certain shares as to which Mr. Prather disclaims beneficial ownership. Bull Run is a principal shareholder of Gray. Mr. Prather is also a member of the board of directors of Capital and Host. Hilton H. Howell, Jr., a director of Gray, is Vice President, Secretary and a director of Bull Run. See "Compensation Committee Interlocks and Insider Participation" for a description of the business relationships between Gray and Messrs. Prather and Robinson, Host, Capital and Bull Run.

PERFORMANCE GRAPH

The following graph compares the cumulative total return of Gray class A common stock from December 1994 and Gray class B common stock from September 1996 (when the Gray class B common stock first became publicly traded) to December 31, 1998 as compared to the stock market total return indexes for (1) The New York Stock Exchange Market Index and (2) The New York Stock Exchange Industry Index based upon the Television Broadcasting Stations Standard Industrial Classification Code. In July 1995, the Gray class A common stock was listed on The New York Stock Exchange.

The graph assumes the investment of \$100 in the Gray class A common stock and class B common stock in the New York Stock Exchange Market Index and the NYSE Television Broadcasting Stations Index on December 31, 1993 and September 1996, respectively. Dividends are assumed to have been reinvested as paid.

COMPARISON OF CUMULATIVE TOTAL RETURN OF GRAY CLASS A COMMON STOCK, NYSE MARKET INDEX AND SIC CODE INDEX

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	GRAY CLASS A COMMON STOCK	SIC CODE INDEX	NYSE MARKET INDEX
12/31/93	100.00	100.00	100.00
12/30/94	110.65	77.71	98.06
12/29/95	183.10	92.48	127.15
12/31/96	194.10	102.86	153.16
12/31/97	270.96	134.27	201.50
12/31/98	284.30	96.25	239.77

COMPARISON OF CUMULATIVE TOTAL RETURN OF GRAY CLASS B COMMON STOCK, NYSE MARKET
INDEX AND SIC CODE INDEX

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	GRAY CLASS B COMMON STOCK	SIC CODE INDEX	NYSE MARKET INDEX
9/25/96	100.00	100.00	100.00
12/31/96	87.29	97.87	106.91
12/31/97	132.74	127.75	140.66
12/31/98	106.16	91.58	167.37

PROPOSAL 3: AMENDMENT OF THE GRAY 1992 LONG TERM INCENTIVE PLAN

At the meeting, the Gray shareholders will be asked to approve the adoption of an amendment to the 1992 Long Term Incentive Plan to provide that the aggregate number of shares of Gray common stock subject to awards under the 1992 Long Term Incentive Plan be increased from 900,000 to 1,900,000. The board approved the amendment to the Incentive Plan, subject to shareholder approval.

The following description of the Incentive Plan is a summary of the material provisions of the Incentive Plan.

Types of Awards. The Incentive Plan provides for the granting of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights ("SARs") and performance awards (collectively, the "Awards") to officers and key employees of Gray and its subsidiaries to purchase shares of Gray class A common stock and class B common stock.

Purpose. The Incentive Plan is designed to encourage officers and key employees to achieve goals, which are mutually beneficial to Gray and the officer or employee, thereby strengthening their desire to remain with Gray, while simultaneously providing an incentive to work for the success of Gray.

Administration. The Incentive Plan is administered by the Management Personnel Committee which consists of persons appointed by Gray's board of directors. Subject to any general guidelines established by the Gray board, the determinations of the Management Personnel Committee are made in accordance with their judgment as to the best interests of Gray and its shareholders. Determinations, interpretations or other actions made or taken by the Management Personnel Committee pursuant to the provisions of the Incentive Plan are final and binding for all purposes and upon all participants.

Incentive Stock Options. The incentive stock options granted under the Incentive Plan may not be exercised earlier than six months and not later than 10 years from the date of grant. The purchase price per share of Gray common stock purchasable under any incentive stock option may not be less than 100% of the fair market value of the shares on the date the option is granted. The aggregate fair market value of the stock which an incentive stock option is exercisable for the first time during any calendar year shall not exceed \$100,000.

Nonqualified Stock Options. The nonqualified stock options granted under the Incentive Plan may not be exercised earlier than six months and not later than 10 years from the date of grant. The purchase price per share of Gray common stock purchasable under any nonqualified stock option is such price as is fixed by the Management Personnel Committee. The Management Personnel Committee has the right to determine at the time an option is granted whether shares issued upon exercise of a nonqualified stock option will be subject to restrictions, and if so, the nature of the restrictions.

Stock Appreciation Rights. Upon the exercise of an SAR, the holder thereof will be entitled to receive the excess of the fair market value (calculated as of the exercise date) of a specified number of shares over the exercise price of the SAR. The exercise price (which may not be less than the fair market value of the shares on the date of grant) and other terms of the SAR will be determined by the Management Personal Committee. At the time of grant, the Management Personnel Committee may establish a maximum amount per share which will be payable upon exercise of an SAR. Payment by Gray upon

exercise of an SAR may be in cash or stock, or any combination thereof, as the Management Personnel Committee determines. The following will apply upon the exercise of a SAR:

- Exercise of SARs in Lieu of Exercise of Options. SARs exercisable in lieu of any related stock option may be exercised for all or part of the shares of stock for which its related option is then exercisable. Such number of shares equal to the number of SARs exercised will no longer be available for Awards under the Incentive Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised will be restored to the number of shares available for issuance under the Incentive Plan.
- Exercise of SARs in Conjunction with Exercise of Options. SARs exercisable in conjunction with the exercise of stock options will be deemed to have been exercised upon the exercise of the related stock options, and shares of stock equal to the sum of the number of shares acquired by exercise of the stock option plus the number of SARs exercised will no longer be available for Awards under the Incentive Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised will be restored to the number of shares available for issuance under the Incentive Plan.
- Exercise of SARs Upon Lapse of Options. SARs exercisable upon lapse of stock options will be deemed to have been exercised upon the lapse of the related stock options as to the number of shares of stock subject to the stock options. Shares of stock equal to the number of SARs deemed to have been exercised will not be available again for Awards under the Incentive Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised will be restored to the number of shares available for issuance under the Incentive Plan.
- Exercise of SARs Independent of Options. SARs exercisable independent of stock options may be exercised upon whatever terms and conditions the Management Personnel Committee imposes upon the SARs, and shares of stock equal to the number of SARs exercised will no longer be available for Awards under the Incentive Plan, provided that if SARs are exercised for cash, shares of stock equal to the number of SARs exercised will be restored to the number of shares available for issuance under the Incentive Plan.

Restricted Stock. Restricted stock consists of stock issued or transferred under the Plan at any purchase price less than the fair market value thereof on the date of issuance or transfer, or as a bonus. Restricted stock awards may not be disposed of by the recipient until the restrictions established by the Management Personnel Committee lapse, and in any event, such restricted stock may not be disposed of for not less than six months following the date of grant. Participants are entitled to all dividends paid with respect to restricted stock during the period which the sale of such stock is restricted and will not be required to return any such dividends to Gray in the event of the forfeiture of the restricted stock.

Performance Awards. Performance awards consist of stock to be issued without payment therefor, in the event that the performance goals established by the Management Personnel Committee are achieved during the applicable performance period. The goals established by the Management Personnel Committee may include return on average total capital employed, earnings per share, return on shareholders' equity and such other goals

as may be established by the Management Personnel Committee. Actual payment of the award earned shall be in cash or in stock or in combination of both, in a single sum or in periodic installments, as determined by the Management Personnel Committee. If the award includes stock, such stock may not be disposed of for six months from the date of issuance pursuant to such award. If the award is paid in cash instead of stock, the number of shares reserved for issuance under the Incentive Plan and in the form of restricted stock or performance awards will be reduced by the number of shares issued.

Adjustments and Amendments of the 1992 Plan. Adjustments in the Incentive Plan and in outstanding options will be made to reflect stock dividends, recapitalizations and similar events. The board of directors has the right to amend or terminate the Incentive Plan at any time; provided, however, that unless first duly approved by the holders of Gray common stock entitled to vote on such matter, no amendment or change may be made in the Incentive Plan: (1) increasing the total number of shares that may be issued under the 1992 Plan or increasing the amount of type of awards that may be granted under the Incentive Plan; (2) changing the minimum purchase price of shares of common stock which may be made subject to awards under the Incentive Plan; or (3) changing the eligibility requirements.

The Incentive Plan is not subject to any of the requirements of the Employee Retirement Income Security Act of 1974, as amended. The Incentive Plan is not, nor is it intended to be, qualified under Section 401(a) of the Internal Revenue Code.

Change in Control. The Incentive Plan provides that in the event of a change of control outstanding awards shall become immediately and fully exercisable or payable according to the following terms:

- Any outstanding and unexercised option shall become immediately and fully exercisable, and shall remain exercisable until it would otherwise expire by reason of lapse of time.
- For six months and seven days following a change in control a holder of an option, unless provided otherwise at the time of grant, shall have the option to receive in cash an amount equal to the amount by which the highest reported price per share of stock, on the date of exercise, shall exceed the base price per share of stock under the option multiplied by the number of shares granted under the option for which this right has been exercised;
- Any outstanding and unexercised SARs shall become exercisable as follows:
 - (1) SARs exercisable in lieu of any related stock option or in conjunction with the exercise of stock options may be exercised for all or part of the shares of stock for which its related option is then exercisable in the same manner as prior to the change in control;
 - (2) SARs exercisable independent of stock options shall be deemed to have been exercised if and when the participant advises the Management Personnel Committee in writing that he or she elects to have options with respect to which the SAR was granted treated as lapsed and shall have been held for six months prior to exercise; and
 - (3) SARs exercisable independent of stock options shall be exercisable immediately, without regard to limitations imposed in the Incentive Plan.

- Any restricted stock shall become immediately and fully transferable. The Management Personnel Committee shall have been deemed to have waived any automatic forfeitures.
- Any performance award which has not expired shall be deemed to have been earned on the assumption that all performance goals have been achieved.
- A "change in control" means a change in control of Gray of a nature that would be required to be reported on Schedule 14A under the Securities Exchange Act. A change of control is deemed to have occurred if (1) any person becomes the beneficial owner of 20 percent or more of the combined voting power of Gray's then outstanding shares; (2) during any period of two consecutive years individuals who at the beginning of such period constitute the board cease for any reason to constitute at least a majority thereof, unless the election of such new directors was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; (3) there is consummated any consolidation or acquisition in which Gray is not the continuing or surviving corporation or pursuant to which shares of Gray common stock are converted into cash, securities, or other property; (4) there is consummated any consolidation or acquisition of Gray in which Gray is the continuing corporation in which the holders of Gray common stock immediately prior to the acquisition do not own 70 percent or more of the stock of the surviving corporation immediately after the acquisition; (5) there is consummated any sale, lease, exchange, or other transfer of substantially all of Gray's assets; or (6) the shareholders of Gray approve any plan or proposal for the liquidation or dissolution of Gray.

Non-Assignability of Plan Awards. No Incentive Plan Award may be assigned or transferred by the recipient, except by will or by the laws of descent and distribution, or pursuant to a Qualified Domestic Relations Order, and are exercisable, during the participant's lifetime, only by the participant.

Certain Federal Income Tax Consequences. The following discussion is designed to provide a summary of the material tax consequences with respect to Awards granted under the Incentive Plan as of the date of this proxy statement. In addition to the tax consequences described below, (1) officers and directors of Gray subject to Section 16(b) of the Securities Exchange Act of 1934, may be subject to special rules regarding the income tax consequences concerning their incentive stock options; nonqualified stock options and restricted shares and (2) any entitlement to a tax deduction on the part of Gray is subject to the applicable Federal tax rules, including, those relating to the \$1 million limitation on deductible compensation.

Incentive Stock Options. Certain options granted or that may be granted under the Incentive Plan will be incentive stock options as defined in the Internal Revenue Code, provided that such options satisfy the requirements under the Internal Revenue Code applicable to incentive stock options. In general, neither the grant nor the exercise of an incentive stock option will result in taxable income to the optionee or a deduction to Gray. The sale of Gray common stock received upon the exercise of an option which satisfies all the requirements of an incentive stock option, as well as the holding period requirement described below, will result in a long-term capital gain or loss to the optionee equal to the difference between the amount realized on the sale and the option price and will not result in a tax deduction to Gray. The exercise of an incentive stock option may have implications in the computation of the optionee's alternative minimum tax. To receive

capital gain or loss treatment upon the disposition of Gray common stock acquired through exercise of an incentive stock option, the optionee must not dispose of the Gray common stock purchased pursuant to the exercise of an incentive stock option within two years after the option is granted and must hold such Gray common stock for at least one year after the transfer of such Gray common stock to the optionee.

If all requirements for incentive stock option treatment other than the holding period rules are satisfied, the recognition of income by the optionee is deferred until disposition of the Gray common stock, but, in general, any gain in an amount equal to the lesser of (1) the fair market value of the Gray common stock on the date of exercise minus the option price or (2) the amount realized on the disposition minus the option price is treated as ordinary income. Any remaining gain is treated as long-term or short-term capital gain depending on the optionee's holding period for the stock that has been sold. Gray will generally be entitled to a deduction at that time equal to the amount of ordinary income realized by the optionee.

The Incentive Plan provides that an optionee may pay for Gray common stock received upon the exercise of an option (including an incentive stock option) with other shares of Gray common stock. In general, an optionee's transfer of stock acquired pursuant to the exercise of an incentive stock option to acquire other stock in connection with the exercise of an incentive stock option may result in ordinary income if the transferred stock has not met the minimum statutory holding period necessary for favorable tax treatment as an incentive stock option. For example, if an optionee exercises an incentive stock option and uses the stock so acquired to exercise another incentive stock option within the two-year or one-year holding periods discussed above, the optionee may realize ordinary income under the rules summarized above.

Nonqualified Stock Options. An optionee will realize no taxable income upon the grant of a non-qualified stock option and Gray will not receive a deduction at the time of such grant unless the option has a readily ascertainable fair market value (as determined under applicable tax law) at the time of grant. Upon exercise of a non-qualified stock option, the optionee generally will realize ordinary income in an amount equal to the excess of the fair market value of the Gray common stock on the date of exercise over the exercise price. Upon a subsequent sale of the Gray common stock by the optionee, the optionee will recognize short-term or long-term capital gain or loss depending upon his or her holding period for the Gray common stock. Gray will generally be allowed a deduction equal to the amount recognized by the optionee as ordinary income.

SARs. Generally, no Federal income tax consequences are incurred by Gray or the holder at the time an SAR is granted pursuant to the Incentive Plan. However, upon the exercise of an SAR, the holder will generally realize ordinary income for Federal income tax purposes equal to the amount of cash or the value of property received by him or her. Gray generally will be entitled at such time to a deduction for Federal income tax purposes in the same amount realized as ordinary income. If a holder of an SAR receives Gray common stock upon the exercise of such right and subsequently disposes of such Gray common stock, any gain or loss realized upon the sale will be either long-term or short-term capital gain or loss, depending on the holder's holding period for the Gray common stock that has been sold.

Restricted Stock Awards. The Federal income tax consequences of a restricted stock award granted under the Incentive Plan will depend, in large measure, on the restrictions placed on the stock.

In general, if the stock is "not transferable" and subject to a "substantial risk of forfeiture," as described above, then, unless the recipient makes an 83(b) election, he or she will recognize ordinary income equal to the fair market value of the stock in the year the stock is either transferable or not subject to a substantial risk of forfeiture over the price, if any, paid for the stock. If the recipient makes an 83(b) election, he or she will recognize ordinary income equal to the fair market value of the stock at the time of the award over the price, if any, paid for the stock. Any gain or loss on a subsequent sale of the stock will be his or her long-or short-term capital gain or loss depending on the recipient's holding period for the stock. Gray will generally be entitled to a deduction equal to the amount of ordinary income recognized by the recipient.

VOTE REQUIRED AND BOARD RECOMMENDATION

Approval of the amendment to the Incentive Plan requires the affirmative vote of the holders of a majority of votes represented by the shares of Gray class A common stock and class B common stock, voting together as a single class, present in person or represented by proxy at the Gray meeting and entitled to vote on the proposal. The board recommends that shareholders of Gray vote their shares "FOR" approval of the amendment to the Incentive Plan.

PROPOSAL 4: CONFIRMATION OF APPOINTMENT OF AUDITORS

The Gray board of directors recommends that the shareholders confirm the appointment of Ernst & Young LLP to audit the books and accounts of Gray for the year ending December 31, 1999.

Representatives of Ernst & Young LLP are expected to be available at the meeting to respond to appropriate questions and will be given the opportunity to make a statement if they so desire.

EXPERTS

The consolidated financial statements of Gray at December 31, 1997 and 1998, and for each of the three years in the period ended December 31, 1998, incorporated by reference in this proxy statement/prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report incorporated by reference, and are so incorporated by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of each of KWTX and Brazos at December 31, 1998, and for the year ended December 31, 1998, included in this proxy statement/prospectus have been audited by Pattillo, Brown & Hill LLP, independent auditors, as set forth in their reports appearing elsewhere in this proxy statement/prospectus, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The financial statements of KXII at December 31, 1998, and for the year ended December 31, 1998, included in this proxy statement/prospectus have been audited by Jaynes, Reitmeier, Boyd & Therrell PC, independent auditors, as set forth in their report appearing elsewhere in this proxy statement/prospectus, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

The legality of the shares of Gray class B common stock to be issued in connection with the acquisitions have been passed upon for Gray by Heyman & Sizemore, Atlanta, Georgia.

SHAREHOLDER PROPOSALS

If a Gray shareholder notifies Gray after July 9, 2000 of an intent to present a proposal at Gray's 2000 Annual Meeting, Gray will have the right to exercise its discretionary voting authority with respect to such proposal, if presented at the meeting, without including information regarding such proposal in its proxy materials. Shareholder proposals to be presented at the 2000 Annual Meeting must be received by Gray on or before December 15, 1999 for inclusion in the proxy statement and proxy card relating to that meeting. Such proposals must also meet the other requirements of the rules of the Securities and Exchange Commission relating to shareholders' proposals.

WHERE TO FIND ADDITIONAL INFORMATION

Gray files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Shareholders may read and copy this information at the following locations of the Securities and Exchange Commission:

Securities and Exchange Commission Judiciary Plaza, Room 1024 450 Fifth Street, N.W. Washington, D.C. 20549	Securities and Exchange Commission Seven World Trade Center, Suite 1300 New York, New York 10048	Securities and Exchange Commission Citicorp Center 500 West Madison Street, Suite 1400 Chicago, Illinois 60661
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Shareholders can also obtain copies of this information by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Room 10024, Washington D.C. 20549, at prescribed rates.

The Securities and Exchange Commission also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, like Gray, who file electronically with the Securities and Exchange Commission. The address of that site is <http://www.sec.gov>.

Gray has filed with the Securities and Exchange Commission a registration statement on Form S-4 that registers the shares of Gray class B common stock to be issued in exchange for shares of KWTX and Brazos stock upon completion of the acquisitions. That registration statement, including the attached exhibits and schedules, contains additional relevant information about Gray, and the Gray class B common stock. The rules and regulations of the Securities and Exchange Commission allow Gray to omit certain information included in the registration statement from this proxy statement/prospectus.

Shareholders can obtain any of the documents incorporated by reference in this document and copies of the Amended and Restated Gray 1992 Long Term Incentive Plan through Gray without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit to this proxy statement/prospectus. Documents incorporated by reference in this proxy statement/prospectus can be obtained by requesting them in writing or by telephone from Gray at the following address:

Gray Communications Systems, Inc.
126 North Washington St.
P.O. Box 48
Albany, Georgia 31702-0048
(912) 888-9378
Attention: Investor Relations

Shareholders requesting documents should do so by September 13, 1999 to receive them before the Gray shareholders' meeting.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows Gray to "incorporate by reference" information into this proxy statement/prospectus. This means that Gray can disclose important information by referring to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is considered to be

part of this proxy statement/prospectus, except for any information that is superseded by information that is included directly in this document.

This proxy statement/prospectus incorporates by reference the documents listed below that Gray has previously filed with the Securities and Exchange Commission and that are not included in or delivered with this document. They contain important information about Gray and its financial condition.

FILINGS - - - - -	PERIOD -----
Annual Report on Form 10-K.....	Year ended December 31, 1998
Quarterly Report on Form 10-Q.....	Quarter ended March 31, 1999
Quarterly Report on Form 10-Q.....	Quarter ended June 30, 1999

The description of Gray class A common stock and class B common stock set forth in Gray's Forms 8-A filed with the Securities and Exchange Commission

Gray incorporates by reference additional documents that it may file with the Securities and Exchange Commission between the date of this proxy statement/prospectus and the date of the Gray shareholders meeting. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

GRAY HAS NOT AUTHORIZED ANYONE TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION ABOUT THE PROPOSED ACQUISITIONS OR GRAY THAT IS DIFFERENT FROM, OR IN ADDITION TO, THAT CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS OR IN ANY OF THE MATERIALS THAT GRAY HAS INCORPORATED BY REFERENCE INTO THIS PROXY STATEMENT/PROSPECTUS. THEREFORE, IF ANYONE DOES PROVIDE INFORMATION OF THIS SORT, IT SHOULD NOT BE RELIED ON. IF A PERSON IS IN A JURISDICTION WHERE OFFERS TO EXCHANGE OR SELL, OR SOLICITATIONS OF OFFERS TO EXCHANGE OR PURCHASE, THE SECURITIES OFFERED BY THIS DOCUMENT OR THE SOLICITATION OF PROXIES IS UNLAWFUL, OR IF IT IS UNLAWFUL TO DIRECT THESE TYPES OF ACTIVITIES, THEN THE OFFER PRESENTED IN THIS PROXY STATEMENT/PROSPECTUS DOES NOT EXTEND TO THAT PERSON. THE INFORMATION CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS SPEAKS ONLY AS OF THE DATE OF THIS PROXY STATEMENT/PROSPECTUS, UNLESS THE INFORMATION SPECIFICALLY INDICATES THAT ANOTHER DATE APPLIES.

FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus contains forward-looking statements. These statements relate to future events or the future financial performance of Gray. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology. These statements only reflect management's expectations and estimates. Actual events or results may differ materially. In evaluating these statements, shareholders should specifically consider various factors, including the risks outlined under "Risk Factors." These factors may cause Gray's actual results to differ materially from any forward-looking statements. Gray is not undertaking any obligations to update any forward-looking statements contained in this proxy statement/prospectus to reflect any future events or developments.

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KWTX BROADCASTING COMPANY

BALANCE SHEETS
JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS:		
Cash, including interest bearing accounts.....	\$ 902,668	\$ 234,176
Investments.....	5,117,224	5,389,480
Accrued interest receivable.....	47,198	59,243
Accounts receivable:		
Trade.....	1,466,892	1,583,163
Network.....	116,498	119,000
Affiliated companies.....	29,647	53,295
Program broadcast rights -- current.....	80,836	64,503
Federal income tax receivable.....	--	--
Prepaid expenses.....	274,924	196,678
	-----	-----
Total Current Assets.....	8,035,887	7,699,538
	-----	-----
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AT COSTS.....	4,470,404	4,278,341
	-----	-----
PROPERTY AND EQUIPMENT, AT COST --		
NET OF ACCUMULATED DEPRECIATION.....	5,187,241	4,780,355
PROGRAM BROADCAST RIGHTS -- NONCURRENT.....	43,776	124,612
OTHER ASSETS:		
Cash surrender value of insurance on life of officer....	81,138	78,767
Due from employees.....	34,339	39,500
Deferred charges.....	30,572	43,542
Deposits and other assets.....	72,743	225,028
	-----	-----
Total Other Assets.....	218,792	386,837
	-----	-----
Total Assets.....	\$17,956,100	\$17,269,683
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable		
Trade.....	\$ 297,803	\$ 172,942
Accrued salaries and wages.....	115,637	103,595
Accrued management bonus.....	270,763	236,703
Program broadcast obligations -- current.....	19,883	91,554
Federal income tax payable.....	10,238	242,582
Other liabilities.....	--	21,842
	-----	-----
Total Current Liabilities.....	714,324	869,218
	-----	-----
LONG-TERM LIABILITIES:		
Program broadcast obligations -- noncurrent.....	16,829	36,712
Deferred federal income tax payable.....	639,354	641,257
	-----	-----
Total Long-term Liabilities.....	656,183	677,969
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock, stated value \$130.50, 1,550 shares		
authorized, issued and outstanding.....	202,269	202,269
Paid-in capital.....	10,173	10,173
Retained earnings.....	16,373,151	15,510,054
	-----	-----
Total Stockholders' Equity.....	16,585,593	15,722,496
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$17,956,100	\$17,269,683
	=====	=====

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
REVENUE.....	\$5,325,177	\$4,928,754
Less agency and representatives' commissions.....	686,060	638,861
	-----	-----
Net Revenue.....	4,639,117	4,289,893
	-----	-----
COSTS AND EXPENSES:		
Technical expenses.....	293,554	288,245
Production expenses.....	674,878	251,941
News expenses.....	238,940	654,169
Program expenses.....	211,622	187,580
Sales expenses.....	401,998	329,310
Management Bonus.....	270,763	236,703
General and administrative expenses.....	688,436	752,613
Depreciation expense.....	336,301	287,812
	-----	-----
Total Costs and Expenses.....	3,116,492	2,988,373
	-----	-----
Earnings from operations.....	1,522,625	1,301,520
OTHER INCOME:		
Other income.....	11,700	39,793
Investment in subsidiary income.....	422,338	488,523
Interest income.....	153,278	148,162
	-----	-----
Total Other Income.....	587,316	676,478
	-----	-----
Earnings before income tax expense.....	2,109,941	1,977,998
Income tax expense.....	652,410	542,821
	-----	-----
Net earnings.....	\$1,457,531	\$1,435,177
	=====	=====

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

STATEMENTS OF RETAINED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
Balance at beginning of year.....	\$17,085,620	\$15,314,877
Add net earnings.....	1,457,531	1,435,177
	-----	-----
Less dividends paid.....	18,543,151	16,750,054
	(2,170,000)	(1,240,000)
	-----	-----
Balance at end of year.....	\$16,373,151	\$15,510,054
	=====	=====

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 1,457,531	\$ 1,435,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	336,301	287,812
(Gain) Loss on disposal of equipment.....	567	(1,818)
Income tax deferred.....	(73,175)	19,832
Changes in operating assets and liabilities:		
Accounts receivable.....	169,120	62,314
Network receivable.....	(1,110)	(1,976)
Intercompany receivable.....	(27,268)	(53,295)
Due from employees.....	6,183	5,247
Prepaid expenses.....	(19,672)	73,848
Accrued interest.....	11,807	(16,117)
Program broadcast rights.....	96,927	55,411
Other assets.....	(20,917)	(215,509)
Accounts payable.....	(188,006)	(366,777)
Accrued liabilities.....	(283,219)	(368,750)
Income tax payable.....	10,238	309,377
Intercompany payable.....	--	(12,328)
Program broadcast obligations.....	(111,630)	(79,493)
Investment in subsidiary.....	327,663	11,477
Other liabilities.....	(4,762)	18,828
	-----	-----
Net cash provided by operating activities...	1,686,578	1,163,260
	-----	-----
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Net purchase of short-term investments.....	(1,865,581)	(20,623)
Purchase of equipment.....	(414,458)	(528,628)
Proceeds from sale of equipment.....	--	1,200
Purchase of held-to-maturity securities.....	(308,317)	(801,633)
Sale of held-to maturity securities.....	2,480,000	400,000
	-----	-----
Net cash used in investing activities.....	(108,356)	(949,684)
	-----	-----
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Payment of dividends.....	(2,170,000)	(1,240,000)
	-----	-----
Net decrease in cash.....	(591,778)	(1,026,424)
Cash at beginning of year.....	1,494,446	1,260,600
	-----	-----
Cash at end of year.....	\$ 902,668	\$ 234,176
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid.....	\$ 574,320	\$ 168,630
	=====	=====

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

1. GENERAL

The accompanying unaudited condensed financial statements of KWTX Broadcasting Company (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission. 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. These condensed financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 1998. Results of operations for the period ended June 30, 1999 are not necessarily indicative of results to be expected for the fiscal year ended December 31, 1999.

2. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

The Company's investment in Brazos Broadcasting Co. (50% owned) is accounted for using the equity method of accounting for investments. This method requires that the investment is recorded at the proportionate percentage of stockholders' equity of the subsidiary and adjusted each period for the proportionate percentage of net income of the subsidiary. Dividends received are treated as a reduction in the basis of the Company's investment in the year received.

The Company received dividends from Brazos Broadcasting Co. of \$750,000 and \$500,000 for the six months ended June 30, 1999 and 1998, respectively.

Pertinent financial information for Brazos Broadcasting Co. for the six months ended June 30, 1999 and 1998 is as follows:

	1999	1998
	-----	-----
BALANCE SHEET:		
Assets		
Current assets.....	\$7,694,314	\$7,273,461
Property and equipment.....	1,921,155	2,143,081
Program broadcast -- noncurrent.....	41,080	118,938
Other assets.....	78,148	7,045
	-----	-----
Total assets.....	\$9,734,697	\$9,542,525
	=====	=====
Liabilities and equity		
Current liabilities.....	\$ 497,407	\$ 672,615
Long-term liabilities.....	296,482	313,229
Stockholders equity.....	8,940,808	8,556,681
	-----	-----
Total liabilities and equity.....	\$9,734,697	\$9,542,525
	=====	=====

KWTX BROADCASTING COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998 -- (CONTINUED)

	1999	1998
	-----	-----
INCOME STATEMENT:		
Revenue.....	\$4,639,117	\$4,289,893
Costs and expenses.....	3,116,492	2,988,373
Other income.....	587,316	676,478
Federal income tax.....	652,410	542,821
	-----	-----
Net income.....	1,457,531	1,435,177
Company's ownership interest.....	50%	50%
	-----	-----
Company's share of net income.....	\$ 728,766	\$ 717,589
	=====	=====

3. OTHER TRANSACTIONS WITH RELATED PARTIES

The Company has deposits with a bank of which two majority shareholders of the bank are related to two minority stockholders of the Company. As of June 30, 1999 and 1998, deposits with this bank were \$5,711,313 and \$1,306,448, respectively, and interest earned on these deposits was \$82,612 and \$40,122 for the six months ended June 30, 1999 and 1998, respectively.

As of June 30, 1999 and 1998, the Company had a receivable from Brazos Broadcasting Co. of \$26,773 and \$51,406, respectively. Each station is responsible for its own costs and expenses. Expenses incurred on behalf of an affiliated station are charged to such station based upon its direct usage.

4. PENDING TRANSACTION

On April 13, 1999, the Company entered into an agreement and plan of merger with Gray Communications Systems, Inc. ("Gray") which provides for the acquisition of the Company by Gray. This agreement provides that the Company's stockholders will receive a combination of cash and Gray class B common stock aggregating \$74,680,000, plus additional consideration for certain net working capital of the Company. Consummation of the transaction is conditioned upon, among other things, the requisite approvals of the Federal Communications Commission and the stockholders of the Company and Gray.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
KWTX Broadcasting Company
Waco, Texas

We have audited the accompanying balance sheet of KWTX Broadcasting Company as of December 31, 1998, and the related statement of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KWTX Broadcasting Company as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

We have compiled the accompanying balance sheets of KWTX Broadcasting Company as of December 31, 1997 and 1996, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. These financial statements were compiled by us from financial statements for the same period, that we previously compiled, on an income tax basis, as indicated in our reports dated February 20, 1998 and February 26, 1997, respectively.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed these accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

As more fully discussed in Note 10, the Company has approved a merger agreement that provides for the acquisition of the Company, subject to a number of conditions, including the approval of Federal Communications Commission.

PATTILLO, BROWN & HILL, L.L.P.

March 24, 1999,
except for Note 10 which
is as of April 13, 1999

KWTX BROADCASTING COMPANY

BALANCE SHEETS

	DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
ASSETS			
CURRENT ASSETS:			
Cash, including interest bearing accounts.....	\$ 1,494,446	\$ 1,260,600	\$ 1,314,182
Investments.....	5,423,326	4,967,224	8,664,239
Accrued interest receivable.....	59,005	43,126	96,483
Accounts receivable			
Trade.....	1,531,131	1,645,477	1,406,829
Network.....	115,388	117,024	147,827
Affiliated companies.....	2,379	--	26,749
Program broadcast rights -- current.....	187,929	146,312	--
Federal income tax receivable.....	104,881	66,795	145,623
Prepaid expenses.....	255,252	270,526	138,416
Total Current Assets.....	9,173,737	8,517,084	11,940,348
Investments in unconsolidated subsidiaries at costs.....	4,798,067	4,289,818	3,640,161
Property and equipment, at cost -- net of accumulated depreciation.....	5,109,650	4,538,921	4,130,961
Program broadcast rights -- noncurrent.....	33,610	98,214	126,164
OTHER ASSETS:			
Cash surrender value of insurance on life of officer.....	81,138	78,767	76,396
Due from employees.....	40,522	44,747	3,675
Deferred charges.....	39,406	42,569	39,937
Deposits and other assets.....	42,992	10,492	10,493
Total Other Assets.....	204,058	176,575	130,501
Total Assets.....	\$19,319,122	\$17,620,612	\$19,968,135
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable			
Trade.....	\$ 485,809	\$ 539,719	\$ 214,809
Affiliated companies.....	--	12,328	--
Accrued salaries and wages.....	121,070	257,862	248,659
Accrued management bonus.....	548,548	451,186	491,087
Program broadcast obligations -- current.....	125,881	182,735	190,808
Federal income tax payable.....	--	--	1,134,839
Other liabilities.....	4,762	3,014	5,128
Total Current Liabilities.....	1,286,070	1,446,844	2,285,330
LONG-TERM LIABILITIES:			
Program broadcast obligations -- noncurrent.....	22,461	25,024	106,743
Deferred federal income tax payable.....	712,529	621,425	518,686
Total Long-term Liabilities.....	734,990	646,449	625,429
STOCKHOLDERS' EQUITY:			
Common stock, stated value \$130.50, 1,550 shares authorized, issued and outstanding.....	202,269	202,269	202,269
Paid-in capital.....	10,173	10,173	10,173
Retained earnings.....	17,085,620	15,314,877	16,844,934
Total Stockholders' Equity.....	17,298,062	15,527,319	17,057,376
Total Liabilities and Stockholders' Equity.....	\$19,319,122	\$17,620,612	\$19,968,135

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
REVENUE.....	\$10,578,028	\$10,048,780	\$10,871,564
Less agency and representatives' commissions.....	(1,356,171)	(1,253,094)	(1,281,409)
Net Revenue.....	9,221,857	8,795,686	9,590,155
COSTS AND EXPENSES:			
Technical expenses.....	616,727	609,089	550,847
Production expenses.....	522,386	480,416	439,138
News expenses.....	1,359,894	1,336,021	1,296,110
Program expenses.....	415,211	380,777	725,820
Sales expenses.....	715,757	708,405	914,352
Management bonus.....	548,548	451,186	491,087
General and administrative expenses.....	1,328,664	1,583,749	1,842,475
Depreciation expense.....	607,127	494,915	553,047
Total Costs and Expenses.....	6,114,314	6,044,558	6,812,876
Earnings from operations.....	3,107,543	2,751,128	2,777,279
OTHER INCOME:			
Other income.....	253,849	77,229	102,600
Investment in subsidiary income.....	1,008,249	899,657	783,854
Interest income.....	339,447	303,767	309,381
Total Other Income.....	1,601,545	1,280,653	1,195,835
Earnings before income tax expense.....	4,709,088	4,031,781	3,973,114
Income tax expense.....	(1,388,345)	(1,305,187)	(1,204,836)
Net earnings before discontinued operations...	3,320,743	2,726,594	2,768,278
Discontinued operations-gain on disposal of radio stations, less applicable income taxes of \$1,232,351.....	--	--	2,392,211
Net earnings.....	\$ 3,320,743	\$ 2,726,594	\$ 5,160,489

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY
STATEMENTS OF RETAINED EARNINGS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
Balance at beginning of year.....	\$15,314,877	\$16,844,934	\$12,304,445
Add net earnings.....	3,320,743	2,726,594	5,160,489
	18,635,620	19,571,528	17,464,934
Less dividends paid.....	(1,550,000)	(4,256,651)	(620,000)
Balance at end of year.....	\$17,085,620	\$15,314,877	\$16,844,934
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$3,320,743	\$2,726,594	\$5,160,489
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	607,127	494,915	553,047
Gain on sale of equipment.....	(206,830)	(1,179)	(16,295)
Barter acquisition of equipment.....	--	--	(38,898)
Income tax deferred.....	91,104	102,738	22,682
Changes in operating assets and liabilities:			
Accounts receivable.....	113,606	(181,096)	(107,903)
Income tax receivable.....	(38,086)	(66,795)	--
Due from employees.....	4,225	(41,072)	77
Prepaid expenses.....	15,274	(132,110)	88,584
Accrued interest.....	(15,879)	53,357	(52,365)
Program broadcast rights.....	22,987	(108,552)	109,895
Other assets.....	(31,708)	(5,003)	(15,347)
Accounts payable.....	(66,238)	337,238	(92,692)
Accrued liabilities.....	(39,430)	(30,698)	88,761
Income tax payable.....	--	(1,134,839)	1,125,538
Program broadcast obligations.....	(59,417)	46,020	(109,596)
Investment in subsidiary.....	(508,249)	(649,657)	(496,354)
Other liabilities.....	1,748	(2,114)	(906)
Net cash provided by operating activities.....	3,210,977	1,407,747	6,218,717
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net purchase of short-term investments.....	(1,893,859)	3,743,212	(4,232,337)
Purchase of equipment.....	(1,300,441)	(910,694)	(369,246)
Proceeds from sale of equipment.....	329,413	9,000	178,515
Purchase of held-to-maturity securities.....	(800,000)	(3,915,000)	(2,185,000)
Sale of held-to maturity securities.....	2,237,756	3,868,804	1,747,755
Net cash provided by (used in) investing activities.....	(1,427,131)	2,795,322	(4,860,313)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Payment of dividends.....	(1,550,000)	(4,256,651)	(620,000)
Net increase (decrease) in cash.....	233,846	(53,582)	738,404
Cash at beginning of year.....	1,260,600	1,314,182	575,778
Cash at end of year.....	\$1,494,446	\$1,260,600	\$1,314,182
SUPPLEMENTAL DISCLOSURES:			
Income taxes paid.....	\$1,248,680	\$2,139,839	\$1,198,037

The accompanying notes are an integral part of these financial statements.

KWTX BROADCASTING COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(UNAUDITED FOR 1997 AND 1996)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

KWTX Broadcasting Company (the "Company") owns and operates television station KWTX in Waco, Texas. The Company also is a 50% owner in Brazos Broadcasting Co., which owns and operates television station KBTX located in Bryan, Texas.

REVENUE RECOGNITION

The Company's policy is to recognize revenue as services are performed.

USE OF ESTIMATES

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

CASH

Cash includes cash on hand and cash in checking and money market accounts which approximates fair market value.

INVESTMENTS

The Company invests in treasury bills, treasury notes and certificates of deposit. These investments are held to maturity and are recorded at amortized cost, where appropriate.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast under program license agreements are initially recorded at the beginning of the license period for the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use compared to the total number of programs run during the period. The portion of the unamortized balance expected to be charged to operating expense in succeeding periods is classified as a current asset, with the remainder classified as a noncurrent asset. The liability for the license fees payable under the program license agreement is classified as current or long-term, in accordance with the payment terms of the various license agreements. The capitalized costs of the rights are recorded at the lower of unamortized costs or net realizable value. All payments made on programs not yet available for broadcast are recorded as other assets until the time the license agreement begins and the program becomes available for broadcast.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

AFFILIATED STATIONS RECEIVABLES/PAYABLE

The Company has two affiliated stations which it records receivables from and payables to throughout the year. The affiliates are Brazos Broadcasting Co. in Bryan, Texas and KXII Broadcasters, Inc. in Sherman, Texas. Each station is responsible for its costs and expenses. Expense incurred on the behalf of an affiliated station is charged to such station based upon its direct usage.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Depreciation is computed using the straight-line method for financial reporting purposes over the estimated useful lives of the related assets ranging from three to thirty-one and one-half years and by accelerated methods for income tax purposes.

Maintenance and repairs are charged to operations; betterments are capitalized. The cost and related accumulated depreciation of assets retired or otherwise disposed of are eliminated from the accounts and the resulting gain or loss is included in income or expense.

INCOME TAXES

Deferred federal income taxes are provided on the differences between the financial statement and income tax basis of assets and liabilities. The Company and its unconsolidated subsidiary (see Note 2) file separate federal income tax returns.

BARTER TRANSACTIONS

The Company barter unsold advertising time for products and services. The asset or expense is recorded at the fair market value of the product or service when received and a liability is recognized for unearned revenue at the end of each period. Barter revenue is recognized when commercials are broadcast.

CONCENTRATION OF CREDIT RISK

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

2. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

The Company's investment in Brazos Broadcasting Co. (50% owned) is accounted for using the equity method of accounting for investments. This method requires that the investment is recorded at the proportionate percentage of stockholders' equity of the subsidiary and adjusted each period for the proportionate percentage of net income of the

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

subsidiary. Dividends received are treated as a reduction in the basis of the Company's investment in the year received.

The Company received dividends from Brazos Broadcasting Co. of \$500,000 in 1998, \$250,000 in 1997 and \$287,500 in 1996.

Pertinent financial information for Brazos Broadcasting Co. as of December 31, 1998, 1997 and 1996, is as follows:

	1998	1997	1996
	-----	-----	-----
BALANCE SHEET:			
Assets			
Current assets.....	\$ 8,849,348	\$7,516,843	\$6,274,540
Property and equipment.....	1,987,844	2,233,333	2,121,226
Program broadcast -- noncurrent.....	36,602	82,429	113,433
Other assets.....	40,012	9,588	7,520
	-----	-----	-----
Total assets.....	\$10,913,806	\$9,842,193	\$8,516,719
	=====	=====	=====
Liabilities and equity			
Current liabilities.....	1,004,177	968,899	889,061
Long-term liabilities.....	313,496	293,658	347,335
Stockholders equity.....	9,596,133	8,579,636	7,280,323
	-----	-----	-----
Total liabilities and equity.....	\$10,913,806	\$9,842,193	\$8,516,719
	-----	-----	-----
INCOME STATEMENT:			
Revenue.....	\$ 7,300,941	\$6,623,663	\$6,146,401
Costs and expenses.....	4,412,923	4,099,996	3,901,746
Other income.....	262,953	287,132	198,312
Federal income tax.....	1,134,474	1,011,486	875,259
	-----	-----	-----
Net income.....	2,016,497	1,799,313	1,567,708
Company's ownership interest.....	50%	50%	50%
	-----	-----	-----
Company's share of net income.....	\$ 1,008,249	\$ 899,657	\$ 783,854
	=====	=====	=====

3. OTHER TRANSACTIONS WITH RELATED PARTIES

The Company has deposits with a bank of which two majority shareholders of the bank are related to two minority stockholders of the Company. As of December 31, 1998, 1997 and 1996, deposits with this bank were \$4,486,679, \$2,370,876 and \$6,327,093, respectively, and interest earned on these deposits was \$88,922, \$109,503, and \$57,225, in 1998, 1997, and 1996, respectively.

As of December 31, 1998, 1997 and 1996, the Company had a receivable from Brazos Broadcasting Co. of \$1,805, a net payable of \$11,997 and a receivable of \$25,882 respectively.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. INVESTMENTS

Investments consist primarily of term bank deposits and government securities. Government securities held at December 31, 1998 have maturity dates ranging from February 1, 1999 to May 31, 1999. Term bank deposits held at December 31, 1998 have maturity dates ranging from January 1, 1999 to July 29, 1999. All securities are carried at amortized cost, which approximates fair market value. The following schedule summarizes the Company's investments at December 31, 1998, 1997 and 1996.

	1998	1997	1996
	-----	-----	-----
Government securities.....	\$2,479,902	\$3,915,264	\$3,869,067
Term bank deposits.....	2,943,424	1,051,960	4,795,172
	-----	-----	-----
	<u>\$5,423,326</u>	<u>\$4,967,224</u>	<u>\$8,664,239</u>
	=====	=====	=====

The Company intends to hold all investments until maturity.

5. PROPERTY AND EQUIPMENT

At December 31, 1998, 1997, and 1996, property and equipment consisted of the following:

	1998	1997	1996
	-----	-----	-----
Land.....	\$ 509,188	\$ 523,847	\$ 523,847
Buildings.....	2,272,710	2,496,270	2,485,251
Broadcast equipment.....	7,497,535	8,527,153	7,695,631
Transportation equipment.....	217,034	294,508	280,748
Furniture and fixtures.....	324,979	661,623	624,382
	-----	-----	-----
Less accumulated depreciation.....	10,821,446 (5,711,796)	12,503,401 (7,964,480)	11,609,859 (7,478,898)
	-----	-----	-----
Net Property and Equipment.....	<u>\$ 5,109,650</u>	<u>\$ 4,538,921</u>	<u>\$ 4,130,961</u>
	=====	=====	=====

6. INCOME TAXES

At December 31, 1998, 1997 and 1996, the provision for income taxes consisted of the following:

	1998	1997	1996
	-----	-----	-----
FEDERAL TAX EXPENSE:			
Current.....	\$1,210,594	\$ 938,206	\$1,091,223
Deferred.....	91,104	102,738	22,682
	-----	-----	-----
Total Federal Tax.....	1,301,698	1,040,944	1,113,905
State franchise tax.....	86,647	264,243	90,931
	-----	-----	-----
Total Income Tax Expense.....	<u>\$1,388,345</u>	<u>\$1,305,187</u>	<u>\$1,204,836</u>
	=====	=====	=====

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 1998, 1997, 1996, components of deferred tax liabilities and assets consisted of the following:

	1998	1997	1996
	-----	-----	-----
DEFERRED TAX LIABILITY -- CURRENT:			
Investment in subsidiary -- KBTX.....	\$ 34,561	\$ 44,177	\$ 33,752
Depreciation expense.....	32,788	37,526	--
Compensated absences.....	319	--	820
Amortization of broadcast rights.....	23,436	21,261	--
	-----	-----	-----
Current Deferred Tax Liability.....	91,104	102,964	34,572
	-----	-----	-----
DEFERRED TAX ASSET -- CURRENT:			
Depreciation expense.....	--	--	11,788
Compensated absences.....	--	226	--
Amortization of broadcast rights.....	--	--	102
	-----	-----	-----
Current Deferred Tax Asset.....	--	226	11,890
	-----	-----	-----
Net Current Deferred Tax Liability.....	91,104	102,738	22,682
	-----	-----	-----
DEFERRED TAX LIABILITY -- NONCURRENT:			
Investment in subsidiary -- KBTX.....	283,208	239,031	187,960
Depreciation expense.....	332,241	294,716	306,504
Amortization of broadcast rights.....	12,501	--	8,659
	-----	-----	-----
Noncurrent Deferred Tax Liability.....	627,950	533,747	503,123
	-----	-----	-----
DEFERRED TAX ASSET -- NONCURRENT:			
Compensated absences.....	6,525	6,300	7,119
Amortization of broadcast rights.....	--	8,760	--
	-----	-----	-----
Noncurrent Deferred Tax Asset.....	6,525	15,060	7,119
	-----	-----	-----
Net Noncurrent Deferred Tax Liability.....	621,425	518,687	496,004
	-----	-----	-----
Total Deferred Federal Income Tax.....	\$712,529	\$621,425	\$518,686
	=====	=====	=====

A reconciliation between taxes computed at the federal statutory rate and the consolidated effective tax rate for the following years was as follows:

	1998		1997		1996	
	-----	-----	-----	-----	-----	-----
Federal statutory tax rate.....	\$1,601,090	34.00%	\$1,370,806	34.00%	\$1,350,859	34.00%
Deduction of state franchise tax.....	(29,460)	(0.63)%	(89,843)	(2.23)%	(30,917)	(0.78)%
Exclusion of 80% of earnings in subsidiary special deduction.....	(274,244)	(5.82)%	(244,707)	(6.07)%	(213,208)	(5.37)%
Other.....	4,312	(0.09)%	4,688	0.12%	7,171	0.18%
	-----	-----	-----	-----	-----	-----
Total Federal Tax.....	\$1,301,698	27.46%	\$1,040,944	25.82%	\$1,113,905	28.03%
	=====	=====	=====	=====	=====	=====

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

7. RETIREMENT PLAN FOR EMPLOYEES

The Company has a retirement plan for employees. Eligible employees of the Company may participate in this plan after completing three years of employment. Under the plan, the Company is required to contribute to the trust fund an amount equal to \$4 for each \$3 which is contributed to the trust fund by the participants for the year, up to a maximum of \$800 per employee per year. The Company contributed to the plan \$22,544 for 1998, \$20,704 for 1997, and \$27,248 for 1996. The Internal Revenue Service has determined that the plan and its trust are qualified under Section 408(c) of the Internal Revenue Code and that the trust is exempt from federal income taxes under Section 408(e) of the Code.

8. OPERATING LEASES

The Company has entered into various operating lease agreements for automobiles. Total lease expense incurred by the Company was \$94,088, \$95,252, and \$93,107 in 1998, 1997, and 1996, respectively. As of December 31, 1998 the future minimum rental payments under non cancellable operating leases were as follows:

1999.....	\$ 861
2000.....	55,790
2001.....	14,904

	\$71,555
	=====

9. DISPOSAL OF AM/FM RADIO STATIONS

In November 1996, the Company sold all of the assets and operations of KWTX-AM and KWTX-FM to Gulfstar Communications of Waco, Inc., resulting in a before tax gain of \$3,624,562. As of December 31, 1996, the Company had a receivable of \$61,320 from Gulfstar Communications of Waco, Inc. related to this sale. On January 2, 1997, a special dividend in an amount representing the net proceeds from this sale was paid to the Company's shareholders.

10. SUBSEQUENT EVENTS

On April 13, 1999, the Company entered into an agreement and plan of merger with Gray Communications Systems, Inc. ("Gray") which provides for the acquisition of the Company by Gray. This agreement provides that the Company's shareholders will receive a combination of cash and Gray class B common stock aggregating \$74,680,000, plus additional consideration for certain net working capital of the Company. Consummation of the transaction is conditioned upon, among other things, the requisite approvals of the Federal Communications Commission and the stockholders of the Company and Gray.

BRAZOS BROADCASTING CO.

BALANCE SHEETS
JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS:		
Cash, including interest bearing accounts.....	\$ 837,743	\$ 382,483
Investments.....	5,221,604	5,046,765
Accrued interest receivable.....	18,968	60,303
Accounts receivable:		
Trade.....	1,441,411	1,569,533
Network.....	44,848	53,574
Federal income tax receivable.....	--	46,021
Program broadcast rights -- current.....	77,858	67,093
Prepaid expenses.....	51,882	47,689
	-----	-----
Total Current Assets.....	7,694,314	7,273,461
	-----	-----
Property and equipment, at cost -- net of accumulated depreciation.....	1,921,155	2,143,081
	-----	-----
Program broadcast -- noncurrent.....	41,080	118,938
Deposits and other assets.....	78,148	7,045
	-----	-----
Total Assets.....	\$9,734,697	\$9,542,525
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and other liabilities.....	\$ 115,929	\$ 170,187
Program broadcast obligations -- current.....	19,883	90,239
Accrued salaries and wages.....	64,515	69,598
Accrued management bonus.....	252,144	291,185
Federal income tax payable.....	18,163	--
Affiliated companies payable.....	26,773	51,406
	-----	-----
Total Current Liabilities.....	497,407	672,615
	-----	-----
LONG-TERM LIABILITIES:		
Program broadcast obligations -- noncurrent.....	16,829	36,711
Deferred federal income tax payable.....	279,653	276,518
	-----	-----
Total Long-term Liabilities.....	296,482	313,229
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock, \$100 par value, 500 shares authorized, issued and outstanding.....	50,000	50,000
Retained earnings.....	8,890,808	8,506,681
	-----	-----
Total Stockholders' Equity.....	8,940,808	8,556,681
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$9,734,697	\$9,542,525
	=====	=====

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
REVENUE.....	\$3,749,252	\$3,943,610
Less agency and representatives' commissions.....	392,628	434,421
	-----	-----
Net Revenue.....	3,356,624	3,509,189
	-----	-----
Costs and Expenses:		
Technical expenses.....	161,201	148,364
News expenses.....	367,125	374,406
Production expenses.....	283,902	278,313
Sales expenses.....	316,251	296,863
Management bonus.....	226,825	226,813
General and administrative expenses.....	656,359	657,501
Depreciation expense.....	191,744	196,466
	-----	-----
Total Costs and Expenses.....	2,203,407	2,178,726
	-----	-----
Earnings from operations.....	1,153,217	1,330,463
OTHER INCOME/EXPENSE:		
Other income (expense).....	14,133	6,338
Interest income.....	126,720	142,545
	-----	-----
Total Other Income.....	140,853	148,883
	-----	-----
Earnings before income tax expense.....	1,294,070	1,479,346
Income tax expense.....	449,395	502,301
	-----	-----
Net earnings.....	\$ 844,675	\$ 977,045
	=====	=====

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

STATEMENTS OF RETAINED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
Balance at beginning of year.....	\$ 9,546,133	\$ 8,529,636
Add net earnings.....	844,675	977,045
	-----	-----
Less dividends paid.....	10,390,808	9,506,681
	(1,500,000)	(1,000,000)
	-----	-----
Balance at end of year.....	\$ 8,890,808	\$ 8,506,681
	=====	=====

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 844,675	\$ 977,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	191,744	196,466
Loss on sale of fixed assets.....	2,134	11,839
Income tax deferred.....	(11,382)	7,884
Changes in operating assets and liabilities:		
Accounts receivable.....	207,844	(15,195)
Network receivable.....	816	(5,905)
Prepaid expenses.....	(23,152)	(23,195)
Accrued interest receivable.....	16,487	(23,894)
Federal income tax receivable.....	--	(46,021)
Other assets.....	(38,713)	2,543
Intercompany receivable.....	--	12,866
Program broadcast rights.....	98,917	57,551
Accounts payable.....	(142,975)	2,081
Accrued liabilities.....	(231,781)	(241,414)
Income tax payable.....	(50,984)	(14,992)
Intercompany payable.....	24,968	50,537
Program broadcast obligations.....	(111,630)	(80,809)
Other liabilities.....	577	--
	-----	-----
Net cash provided by operating activities.....	777,545	867,387
	-----	-----
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Purchase of equipment.....	(127,189)	(118,053)
Net sale of short-term investments.....	233,378	614,519
Purchase of held-to-maturity securities.....	(867,516)	(1,350,734)
Sale of held-to maturity securities.....	1,697,888	845,000
	-----	-----
Net cash provided by (used in) investing activities.....	936,561	(9,268)
	-----	-----
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Payment of dividends.....	(1,500,000)	(1,000,000)
	-----	-----
Net increase (decrease) in cash.....	214,106	(141,881)
Cash at beginning of year.....	623,637	524,364
	-----	-----
Cash at end of year.....	\$ 837,743	\$ 382,483
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid.....	\$ 467,363	\$ 507,502
	=====	=====

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998
(UNAUDITED)

1. GENERAL

The accompanying unaudited condensed financial statements of Brazos Broadcasting Co. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and rules and regulations of the Securities and Exchange Commission. 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. These condensed financial statements should be read in conjunction with the financial statements of Brazos Broadcasting Co. for the year ended December 31, 1998. Results of operations for the period ended June 30, 1999 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 1999.

2. TRANSACTIONS WITH RELATED PARTIES

Fifty percent of the Company's capital stock is owned by KWTX Broadcasting Company.

As of June 30, 1999 and 1998, the Company had a payable to KWTX Broadcasting Company of \$26,773 and \$51,406, respectively. Each station is responsible for its own costs and expenses. Expenses incurred on behalf of an affiliated station are charged to such station based upon its direct usage.

The Company has deposits with a bank of which a major shareholder of the bank is also a major shareholder of the Company. As of June 30, 1999, deposits with this bank were \$3,842,938 and interest earned on these deposits was \$68,568 for the six months then ended.

3. PENDING TRANSACTION

On April 13, 1999, the Company entered into an agreement and plan of merger with Gray Communications Systems, Inc. ("Gray") which provides for the acquisition of the Company by Gray. This agreement provides that the Company's stockholders other than KWTX Broadcasting Company (who will be compensated through a related transaction) will receive a combination of cash and Gray class B common stock aggregating \$22,820,000, plus additional consideration for certain net working capital of the Company. Consummation of the transaction is conditioned upon, among other things, the requisite approvals of the Federal Communications Commission and the stockholders of the Company and Gray.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brazos Broadcasting Co.
Bryan, Texas

We have audited the accompanying balance sheet of Brazos Broadcasting Co. as of December 31, 1998, and the related statement of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brazos Broadcasting Co. as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

We have compiled the accompanying balance sheets of Brazos Broadcasting Co. as of December 31, 1997 and 1996, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. These financial statements were compiled by us from financial statements for the same period that we previously audited on an income-tax basis, as indicated in our reports dated February 20, 1998 and February 21, 1997, respectively.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed these accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

As more fully discussed in Note 8, the Company has approved a merger agreement that provides for the acquisition of the Company, subject to a number of conditions, including the approval of the Federal Communications Commission.

PATTILLO, BROWN & HILL, L.L.P.

March 24, 1999,
except for Note 8 which
is as of April 13, 1999

BRAZOS BROADCASTING CO.

BALANCE SHEETS

	DECEMBER 31		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
ASSETS			
CURRENT ASSETS:			
Cash, including interest bearing accounts.....	\$ 623,637	\$ 524,364	\$ 221,175
Investments.....	6,285,354	5,155,550	4,637,804
Accrued interest receivable.....	35,455	36,409	36,945
Accounts receivable:			
Trade.....	1,649,255	1,554,338	1,131,104
Network.....	45,664	47,669	57,146
Affiliated companies.....	--	12,866	--
Program broadcast rights -- current.....	181,253	161,153	165,006
Prepaid expenses.....	28,730	24,494	25,360
Total Current Assets.....	8,849,348	7,516,843	6,274,540
Property and equipment, at cost -- net of accumulated depreciation.....	1,987,844	2,233,333	2,121,226
Program broadcast -- noncurrent.....	36,602	82,429	113,433
Deposits and other assets.....	40,012	9,588	7,520
Total Assets.....	\$10,913,806	\$9,842,193	\$8,516,719
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and other liabilities.....	\$ 258,904	\$ 168,106	\$ 5,640
Program broadcast obligations -- current.....	125,881	182,735	190,808
Accrued salaries and wages.....	62,120	176,448	154,658
Accrued management bonus.....	486,320	425,749	402,842
Federal income tax payable.....	69,147	14,992	108,674
Affiliated companies payable.....	1,805	869	25,882
Other liabilities.....	--	--	557
Total Current Liabilities.....	1,004,177	968,899	889,061
	-----	-----	-----
LONG-TERM LIABILITIES:			
Program broadcast obligations -- noncurrent.....	22,461	25,024	106,743
Deferred federal income tax payable.....	291,035	268,634	240,592
Total Long-term Liabilities.....	313,496	293,658	347,335
	-----	-----	-----
STOCKHOLDERS' EQUITY:			
Common stock, \$100 par value, 500 shares authorized, issued and outstanding.....	50,000	50,000	50,000
Retained earnings.....	9,546,133	8,529,636	7,230,323
Total Stockholders' Equity.....	9,596,133	8,579,636	7,280,323
	-----	-----	-----
Total Liabilities and Stockholders' Equity.....	\$10,913,806	\$9,842,193	\$8,516,719
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
REVENUE.....	\$ 8,223,429	\$7,383,495	\$6,774,080
Less agency and representatives' commissions.....	(922,488)	(759,832)	(627,679)
Net Revenue.....	7,300,941	6,623,663	6,146,401
COSTS AND EXPENSES:			
Technical expenses.....	300,853	291,255	272,258
News expenses.....	739,582	701,631	601,203
Production expenses.....	589,197	572,807	583,531
Sales expenses.....	631,245	594,722	554,448
Management bonus.....	484,441	425,749	402,842
General and administrative expenses.....	1,275,310	1,133,330	1,063,385
Depreciation expense.....	392,295	380,502	424,079
Total Costs and Expenses.....	4,412,923	4,099,996	3,901,746
Earnings from operations.....	2,888,018	2,523,667	2,244,655
Other income.....	262,953	287,132	198,312
Earnings before income tax expense.....	3,150,971	2,810,799	2,442,967
Income tax expense.....	1,134,474	1,011,486	875,259
Net earnings.....	\$ 2,016,497	\$1,799,313	\$1,567,708

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

STATEMENTS OF RETAINED EARNINGS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
Balance at beginning of year.....	\$ 8,529,636	\$7,230,323	\$6,237,615
Add net earnings.....	2,016,497	1,799,313	1,567,708
	10,546,133	9,029,636	7,805,323
Less dividends paid.....	(1,000,000)	(500,000)	(575,000)
Balance at end of year.....	\$ 9,546,133	\$8,529,636	\$7,230,323
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(AUDITED)	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 2,016,497	\$ 1,799,313	\$ 1,567,708
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	392,295	380,502	424,079
(Gain) loss on sale of fixed assets.....	7,269	(10,509)	34,254
Barter acquisition of equipment.....	--	--	(205,424)
Income tax deferred.....	22,401	28,042	(28,922)
Changes in operating assets and liabilities:			
Accounts receivable.....	(92,912)	(413,757)	(286,223)
Prepaid expenses.....	(4,236)	866	(5,485)
Accrued interest receivable.....	954	536	2,303
Other assets.....	(30,424)	(2,068)	(1,508)
Intercompany receivable.....	12,866	(12,866)	--
Program broadcast rights.....	25,727	34,857	114,582
Accounts payable and other liabilities.....	90,798	162,466	(4,145)
Accrued liabilities.....	(53,757)	44,697	145,662
Income tax payable.....	54,155	(93,682)	6,621
Intercompany payable.....	936	(25,013)	24,716
Program broadcast obligations.....	(59,417)	(89,792)	(109,596)
Other liabilities.....	--	(557)	557
Net cash provided by operating activities.....	2,383,152	1,803,035	1,679,179
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment.....	(154,075)	(482,100)	(392,352)
Proceeds from sale of equipment.....	--	--	9,050
Net purchase of short-term investments....	(2,960,804)	(441,746)	(44,990)
Purchase of held-to-maturity securities...	(1,860,000)	(4,041,000)	(3,615,000)
Sale of held-to maturity securities.....	3,691,000	3,965,000	3,000,000
Net cash used in investing activities.....	(1,283,879)	(999,846)	(1,043,292)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Payment of dividends.....	(1,000,000)	(500,000)	(575,000)
Net increase in cash.....	99,273	303,189	60,887
Cash at beginning of year.....	524,364	221,175	160,288
Cash at end of year.....	\$ 623,637	\$ 524,364	\$ 221,175
SUPPLEMENTAL DISCLOSURES:			
Income taxes paid.....	\$ 1,020,927	\$ 903,653	\$ 840,266

The accompanying notes are an integral part of these financial statements.

BRAZOS BROADCASTING CO.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(UNAUDITED 1997 AND 1996)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Brazos Broadcasting Co. (the "Company") owns and operates television station KBTX located in Bryan, Texas. The Company is a 50% owned, unconsolidated, subsidiary of KWTX Broadcasting Company, which operates television station KWTX in Waco, Texas.

REVENUE RECOGNITION

The Company's policy is to recognize revenue as services are performed.

USE OF ESTIMATES

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

CASH

Cash includes cash on hand and cash in checking and money market accounts which approximates fair market value.

INVESTMENTS

The Company invests in treasury bills, treasury notes and other government securities. These investments are recorded at cost, which approximates market value.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast under program license agreements are initially recorded at the beginning of the license period for the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use compared to the total number of programs run during the period. The portion of the unamortized balance expected to be charged to operating expense in succeeding periods is classified as a current asset, with the remainder classified as a noncurrent asset. The liability for the license fees payable under the program license agreement is classified as current or long-term, in accordance with the payment terms of the various license agreements. The capitalized costs of the rights are recorded at the lower of unamortized costs or net realizable value. All payments made on programs not yet available for broadcast are recorded as other assets until the time the license agreement begins and the program becomes available for broadcast.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Depreciation is computed using the straight-line method for financial reporting purposes over the estimated useful lives of the related assets ranging from five to thirty-five years and by accelerated methods for income tax purposes.

Maintenance and repairs are charged to operations; betterments are capitalized. The cost and related accumulated depreciation of assets retired or otherwise disposed of are eliminated from the accounts and the resulting gain or loss is included in income or expense.

INCOME TAXES

Deferred federal income taxes are provided on the differences between the financial statement and income tax basis of assets and liabilities. The Company and its parent, KWTX Broadcasting Company, file separate federal income tax returns.

BARTER TRANSACTIONS

The Company barter unsold advertising time for products and services. The asset or expense is recorded at the fair market value of the product or service when received and a liability is recognized for unearned revenue at the end of each period. Barter revenue is recognized when commercials are broadcast.

CONCENTRATION OF CREDIT RISK

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

2. INVESTMENTS

Investments consist primarily of term bank deposits and government securities. Government securities held at December 31, 1998 have maturity dates ranging from February 22, 1999 to July 1, 1999. Term bank deposits held at December 31, 1998, have maturity dates ranging from January 1, 1999 to February 28, 1999. All securities are

BRAZOS BROADCASTING CO.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

carried at amortized cost, which approximates fair market value. The following schedule summarizes the Company's investments at December 31, 1998, 1997 and 1996.

	1998	1997	1996
	-----	-----	-----
Government securities.....	\$2,209,038	\$4,041,365	\$3,928,970
Term bank deposits.....	4,076,316	1,114,185	708,834
	-----	-----	-----
	\$6,285,354	\$5,155,550	\$4,637,804
	=====	=====	=====

The Company intends to hold all investments until maturity.

3. PROPERTY AND EQUIPMENT

At December 31, 1998, 1997, and 1996, property and equipment consisted of the following:

	1998	1997	1996
	-----	-----	-----
Land.....	\$ 14,937	\$ 14,937	\$ 14,937
Buildings.....	445,368	439,866	439,866
Radio and television equipment.....	5,334,788	5,347,451	4,951,573
Transportation equipment.....	632,565	622,789	560,407
Furniture and fixtures.....	311,353	309,913	308,844
	-----	-----	-----
	6,739,011	6,734,956	6,275,627
Less accumulated depreciation.....	(4,751,167)	(4,501,623)	(4,154,401)
	-----	-----	-----
Net Property and Equipment.....	\$ 1,987,844	\$ 2,233,333	\$ 2,121,226
	=====	=====	=====

4. INCOME TAXES

At December 31, 1998, 1997 and 1996, the provision for income taxes for the Company consisted of the following:

	1998	1997	1996
	-----	-----	-----
FEDERAL TAX EXPENSE:			
Current.....	\$1,020,927	\$ 903,653	\$840,266
Deferred.....	22,400	28,042	(28,922)
	-----	-----	-----
Total Federal Tax.....	1,043,327	931,695	811,344
State franchise tax.....	91,147	79,791	63,915
	-----	-----	-----
Total Income Tax Expense.....	\$1,134,474	\$1,011,486	\$875,259
	=====	=====	=====

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 1998, 1997, and 1996, components of deferred tax liabilities and assets consisted of the following:

	1998	1997	1996
	-----	-----	-----
DEFERRED TAX LIABILITY -- CURRENT:			
Depreciation expense.....	\$ 445	\$ 10,961	\$ --
Compensated absences.....	--	--	467
Amortization of broadcast rights.....	22,505	18,678	--
	-----	-----	-----
Current Deferred Tax Liability.....	22,950	29,639	467
	-----	-----	-----
DEFERRED TAX ASSET -- CURRENT:			
Depreciation expense.....	--	--	27,694
Compensated absences.....	550	1,597	--
Amortization of broadcast rights.....	--	--	1,695
	-----	-----	-----
Current Deferred Tax Asset.....	550	1,597	29,389
	-----	-----	-----
Net Current Deferred Tax Liability.....	22,400	28,042	(28,922)
	-----	-----	-----
DEFERRED TAX LIABILITY -- NONCURRENT:			
Depreciation expense.....	260,991	250,030	277,724
Amortization of broadcast rights.....	12,180	--	--
	-----	-----	-----
Noncurrent Deferred Tax Liability.....	273,171	250,030	277,724
	-----	-----	-----
DEFERRED TAX ASSET -- NONCURRENT:			
Compensated absences.....	4,536	2,940	3,407
Amortization of broadcast rights.....	--	6,498	4,803
	-----	-----	-----
Noncurrent Deferred Tax Asset.....	4,536	9,438	8,210
	-----	-----	-----
Net Noncurrent Deferred Tax Liability...	268,635	240,592	269,514
	-----	-----	-----
Total Deferred Federal Income Tax.....	\$291,035	\$268,634	\$240,592
	=====	=====	=====

Differences between the statutory and effective tax rates are due to small differences resulting from the meals and entertainment deduction limitation for income tax purposes.

5. RETIREMENT PLAN FOR EMPLOYEES

The Company has a retirement plan for employees. Eligible employees of the Company may participate in this plan after completing three years of employment. Under the plan, the Company is required to contribute to the trust fund an amount equal to \$4 for each \$3 which is contributed to the trust fund by the participants for the year, up to a maximum of \$800 per employee per year. The Company contributed to such plan \$11,700 for 1998, \$10,206 for 1997 and \$11,800 for 1996. The Internal Revenue Service has determined that the plan and its trust are qualified under Section 408(c) of the Internal Revenue Code and that the trust is exempt from federal income taxes under Section 408(e) of the Code.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

6. TRANSACTIONS WITH RELATED PARTIES

Fifty percent of the Company's capital stock is owned by KWTX Broadcasting Company.

As of December 31, 1998, 1997 and 1996, the Company had a payable to KWTX Broadcasting Company of \$1,805, a net receivable of \$11,997, and a payable of \$25,882, respectively. Each station is responsible for its costs and expenses. Expenses incurred on the behalf of an affiliated station are charged to such station based upon the direct usage.

The Company has deposits with a bank of which a major shareholder of the bank is also a major shareholder of the Company. As of December 31, 1998, deposits with this bank were \$2,400,380, and interest earned on these deposits earned in 1998 was \$40,774.

7. LEASE COMMITMENTS

On April 13, 1982, Brazos Broadcasting Company, entered into a contract to lease a tower location for a 1,705 foot tower, situated in Grimes County, Texas. This lease is for a term of 50 years, at \$12,000 per year, adjusted for the consumer price index. The cost of this lease was \$19,951, \$19,516 and \$19,081 in 1998, 1997 and 1996, respectively.

The Company has entered into various operating lease agreements for automobiles. Total lease expense was \$12,270, \$12,156, and \$14,060 in 1998, 1997, and 1996, respectively. As of December 31, 1998, future minimum lease payments under non-cancellable operating leases were as follows:

1999.....	\$12,327
2000.....	3,082

	\$15,409
	=====

8. SUBSEQUENT EVENTS

On April 13, 1999, the Company entered into an agreement and plan of merger with Gray Communications Systems, Inc. ("Gray") which provides for the acquisition of the Company by Gray. This agreement provides that the Company's stockholders other than KWTX Broadcasting Company (who will be compensated through a related transaction) will receive a combination of cash and Gray class B common stock aggregating \$22,820,000, plus additional consideration for certain net working capital of the Company. Consummation of the transaction is conditioned upon, among other things, the requisite approvals of the Federal Communications Commission and the stockholders of the Company and Gray.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

CONDENSED COMBINED BALANCE SHEETS
JUNE 30, 1999 AND 1998

	1999	1998
----- (UNAUDITED) -----		
ASSETS		
Current assets:		
Cash.....	\$ 1,118,284	\$ 674,312
Accounts receivable less allowance for doubtful accounts of \$17,867 and \$20,839.....	1,379,603	1,204,890
Employee accounts receivable.....	11,437	15,465
Prepaid expenses.....	58,619	46,324
Broadcast rights.....	120,661	42,920
	-----	-----
Total current assets.....	2,688,604	1,983,911
	-----	-----
Property, plant and equipment (Note 2).....	5,337,114	5,681,163
Less accumulated depreciation.....	(3,202,120)	(3,551,940)
	-----	-----
Total property, plant and equipment.....	2,134,994	2,129,223
	-----	-----
Broadcast rights, less current portion.....	83,748	--
	-----	-----
Goodwill, less accumulated amortization of \$690,559 and \$584,319.....	3,559,032	3,665,272
	-----	-----
Other assets.....	2,530	2,530
	-----	-----
Total assets.....	\$ 8,468,908	\$ 7,780,936
	=====	=====
LIABILITIES AND STOCKHOLDERS' AND PARTNERS' EQUITY		
Current liabilities:		
Notes payable -- related parties (Notes 2 and 3).....	\$ 9,349	\$ 99,524
Current portion of long-term debt -- related party (Note 2).....	77,525	102,834
Current portion of long-term capital leases -- related party (Note 2).....	178,236	160,551
Current portion of contracts payable for broadcast rights.....	156,370	45,056
Accounts payable -- trade.....	165,474	458,923
Accrued liabilities (Notes 2 and 3).....	262,506	181,954
	-----	-----
Total current liabilities.....	849,460	1,048,842
Long-term debt -- related party, less current portion (Notes 2 and 4).....	3,818,267	3,895,792
Long-term capital lease obligations, less current portion -- related party (Note 2).....	409,566	587,920
Contracts payable for broadcast rights, less current portion.....	102,260	43,198
	-----	-----
Total liabilities.....	5,179,553	5,575,752
	-----	-----
Commitments		
STOCKHOLDERS' AND PARTNERS' EQUITY:		
Common stock -- no par value; 10,000 shares authorized 4,500 issued.....	--	142,641
Retained earnings.....	--	1,186,168
Partners' equity.....	3,289,355	876,375
	-----	-----
Total stockholders' and partners' equity.....	3,289,355	2,205,184
	-----	-----
Total liabilities and stockholders' and partners' equity.....	\$ 8,468,908	\$ 7,780,936
	=====	=====

See accompanying notes to condensed combined financial statements.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

CONDENSED COMBINED STATEMENTS OF INCOME AND STOCKHOLDERS'
AND PARTNERS' EQUITY
SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
REVENUES:		
Sales:		
Local.....	\$ 873,700	\$ 837,227
Regional.....	1,492,621	1,263,044
National.....	784,014	615,408
Barter transactions.....	14,880	24,750
	-----	-----
Total sales.....	3,165,215	2,740,429
	-----	-----
Less commissions:		
Agency.....	(387,501)	(324,861)
Representatives.....	(53,313)	(41,848)
	-----	-----
Total commissions.....	(440,814)	(366,709)
	-----	-----
Net sales.....	2,724,401	2,373,720
CBS income.....	467,542	431,760
Production income.....	16,235	19,225
Other.....	610	9,801
	-----	-----
Total revenues.....	3,208,788	2,834,506
	-----	-----
OPERATING EXPENSES:		
Technical.....	126,972	147,118
Programming.....	618,026	565,790
Sales.....	245,641	243,591
General (Note 2).....	854,925	818,918
Depreciation.....	198,266	174,458
Amortization of goodwill.....	53,120	53,120
	-----	-----
Total operating expenses.....	2,096,950	2,002,995
	-----	-----
Income from operations.....	1,111,838	831,511
Gain on sale of equipment.....	90,000	--
Interest expense.....	(232,184)	(234,063)
	-----	-----
Income before income taxes.....	969,654	597,448
Income taxes -- state.....	4,106	12,493
	-----	-----
Net income.....	965,548	584,955
Distributions.....	(622,590)	(355,898)
Stockholders' and partners' equity -- beginning of year.....	2,946,397	1,976,127
	-----	-----
Stockholders' and partners' equity -- end of year.....	\$3,289,355	\$2,205,184
	=====	=====

See accompanying notes to condensed combined financial statements.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

CONDENSED COMBINED STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

	1999	1998
	-----	-----
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 965,548	\$ 584,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	198,266	174,458
Gain on sale of equipment.....	(90,000)	--
Amortization of goodwill.....	53,120	53,120
Amortization of broadcast rights.....	78,185	58,086
Payments on contracts payable for broadcast rights.....	(67,334)	(28,890)
Change in operating assets and liabilities:		
Increase in accounts receivable.....	(167,437)	(185,216)
Decrease (increase) in employee accounts.....	25,987	(8,503)
Decrease in prepaid expenses.....	(27,906)	(11,810)
Increase in accounts payable -- trade.....	125,881	429,438
Decrease in accrued expenses.....	(66,649)	(59,117)
	-----	-----
Net cash provided by operating activities.....	1,027,661	1,006,521
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment.....	(335,567)	(371,569)
	-----	-----
Net cash used in investing activities.....	(335,567)	(371,569)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations.....	(82,421)	(60,602)
Payments of notes payable -- related party.....	(90,175)	--
Payments of long-term debt.....	(35,984)	--
Distributions to shareholders and partners.....	(622,590)	(355,898)
	-----	-----
Net cash used in financing activities.....	(831,170)	(416,500)
	-----	-----
Net increase (decrease) in cash.....	(139,076)	218,452
Cash at beginning of year.....	1,257,360	455,860
	-----	-----
Cash at end of year.....	\$1,118,284	\$ 674,312
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest.....	\$ 212,367	\$ 209,970
	=====	=====
Income taxes -- state.....	\$ 36,391	\$ 20,628
	=====	=====

See accompanying notes to condensed combined financial statements.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

1. GENERAL

The accompanying unaudited condensed combined financial statements of KXII Broadcasters, Inc. ("KXII, Inc.") and KXII Television, Ltd. ("KXII, Ltd.") (collectively, the "Companies") have been prepared in accordance with generally accepted accounting principles for interim financial information and rules and regulations of the Securities and Exchange Commission. 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. These condensed combined financial statements should be read in conjunction with the combined financial statements of the Companies for the year ended December 31, 1998. Results of operations for the period ended June 30, 1999 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 1999.

2. RELATED PARTY TRANSACTIONS

K-Twelve, Ltd. is a limited partnership, which is largely owned by the same shareholders as KXII, Inc. KXII, Inc. remitted \$166,698 to K-Twelve, Ltd. during each of the six months ended June 30, 1999 and 1998 in connection with the use of various assets and services provided by K-Twelve, Ltd. Because this transaction is between related parties, it has been recorded as a capital lease and management fee for financial statement purposes. Principal and interest payments of \$56,808 have been recorded to represent a capital lease for the broadcast studios and equipment in Sherman, Texas and Ardmore, Oklahoma, with the remainder, \$111,890, reflected as management fees. KXII, Inc. also has a note payable to K-Twelve, Ltd. for the transfer of certain assets in 1992, which is discussed further in Note 4.

KXII, Inc. leases certain equipment and buildings under capital leases from a related entity that is owned in part by a shareholder of KXII, Inc. The equipment is capitalized in the combined balance sheets at net book value of \$894,127 and \$976,558 at June 30, 1999 and 1998, respectively.

Other transactions resulting in payments to related parties were as follows:

- Note payable of \$9,349 and \$99,524, respectively, at June 30, 1999 and 1998 and accrued interest payable of \$27,444 and \$21,473 at June 30, 1999 and 1998, respectively, to a director of the Companies. Interest expense of \$2,986 was incurred during the six months ended June 30, 1999 and 1998.
- Management fees of \$99,600 and \$124,500 were paid during the six months ended June 30, 1999 and 1998, respectively, to officers of KXII, Inc. Management fees of \$24,900 were paid during the six months ended June 30, 1999 to officers of KXII, Ltd. No such fees were paid in the six months ended June 30, 1998 to officers of KXII, Ltd.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

- Fees to the Board of Directors of KXII, Inc. of \$15,000 were incurred during the six months ended June 30, 1999 and 1998.

3. NOTE PAYABLE -- RELATED PARTY

As of January 1995, KXII, Inc. repurchased 500 shares of stock of KXII, Inc. from a former stockholder for \$109,524. This amount was to be paid in installments through December 31, 1998 with interest on the unpaid balance at a rate of 6% per annum; however, it was still outstanding at June 30, 1999. At June 30, 1999 and 1998, there was a balance of \$9,349 and \$99,524, respectively, owed to the former stockholder, plus accrued interest of \$27,444 and \$21,473 at June 30, 1999 and 1998, respectively.

4. LONG-TERM DEBT -- RELATED PARTY

On December 31, 1992, KXII, Inc. purchased certain assets of K-Twelve, Ltd. for a note payable in the amount of \$4,249,591. The note, which bears interest at an annual rate of 10%, is due in quarterly payments of \$116,064, including interest, with the final payment due on December 31, 2017. The balance of the note was \$3,895,792 and \$3,998,626 at June 30, 1999 and 1998, and interest expense of \$196,145 and \$199,529 was accrued for the six months ended June 30, 1999 and 1998, respectively.

5. SALE OF THE COMPANIES

KXII Broadcasters, Ltd. (see Note 6 below) and KXII, Ltd. have signed an agreement to sell substantially all of the assets of the Companies for an aggregate purchase price of approximately \$41.5 million. An application for the transfer of the broadcasting license has been granted by the Federal Communications Commission.

6. REORGANIZATION

On April 19, 1999, the shareholders of KXII, Inc. contributed their stock to a newly formed corporation that subsequently contributed the stock to two newly formed subsidiaries. As permitted under the Texas Business Corporation Act and the Texas Revised Partnership Act, KXII, Inc. then was converted to a Texas limited partnership, KXII Broadcasters, Ltd. The broadcast operations of KXII Channel 12 will remain in the new partnership.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors, Stockholders and Partners
KXII Broadcasters, Inc.
KXII Television, Ltd.

We have audited the accompanying combined balance sheet of KXII Broadcasters, Inc. and KXII Television, Ltd. (a limited partnership) (the Companies) as of December 31, 1998, and the related combined statements of income and stockholders' and partners' equity, and cash flows for the year ended December 31, 1998. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of KXII Broadcasters, Inc. and KXII Television, Ltd. as of December 31, 1998, and the results of their combined operations and their combined cash flows for the year ended December 31, 1998 in conformity with generally accepted accounting principles.

As more fully discussed in Note 10, the Companies have approved the sale of substantially all their assets. The transfer of certain broadcast licenses must be approved by the Federal Communications Commission before the sale is consummated.

The accompanying combined balance sheets of the Companies as of December 31, 1997 and 1996 and the related combined statements of income and stockholders' and partners' equity, and cash flows for the years then ended were not audited by us and, accordingly, we do not express an opinion on them.

Jaynes, Reitmeier, Boyd & Therrell PC
April 9, 1999, except for Notes 10 and 11
which are as of April 19, 1999

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

COMBINED BALANCE SHEETS
DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
		(UNAUDITED)	(UNAUDITED)
ASSETS			
Current assets:			
Cash.....	\$ 1,257,360	\$ 455,860	\$ 443,404
Trade accounts receivable, less allowance for doubtful accounts of \$14,827, \$12,966 and \$12,949.....	1,212,165	1,019,674	1,019,232
Employee accounts receivable (Note 2).....	37,424	6,962	4,239
Prepaid expenses.....	30,713	34,514	28,488
Broadcast rights.....	120,661	61,718	76,914
	-----	-----	-----
Total current assets.....	2,658,323	1,578,728	1,572,277
	-----	-----	-----
Property, plant and equipment (Notes 2, 3 and 8).....	5,141,573	5,092,773	4,929,149
Less accumulated depreciation.....	(3,233,879)	(3,377,482)	(3,209,563)
	-----	-----	-----
Property, plant and equipment.....	1,907,694	1,715,291	1,719,586
	-----	-----	-----
Broadcast rights, less current portion.....	161,933	39,288	84,416
	-----	-----	-----
Goodwill, less accumulated amortization of \$637,439, \$531,199 and \$424,959.....	3,612,152	3,718,392	3,824,632
	-----	-----	-----
Other assets.....	2,530	2,530	2,530
	-----	-----	-----
Total assets.....	\$ 8,342,632	\$7,054,229	\$7,203,441
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' AND PARTNERS' EQUITY			
Current liabilities:			
Note payable -- related party (Notes 2 and 4).....	\$ 99,524	\$ 99,524	\$ 99,524
Current portion of long-term debt-related party (Notes 2 and 6).....	73,791	66,850	60,563
Current portion of long-term capital lease obligations -- related party (Notes 2 and 8).....	169,191	119,053	120,621
Current portion of contracts payable for broadcast rights (Note 5).....	156,370	45,056	61,752
Accounts payable:			
Trade.....	39,593	29,485	42,216
Related party.....	--	--	32,509
Accrued liabilities (Notes 2 and 4).....	329,155	241,071	251,224
	-----	-----	-----
Total current liabilities.....	867,624	601,039	668,409
Long-term debt -- related party less current portion (Notes 2 and 6).....	3,857,985	3,931,776	3,998,626
Long-term capital lease obligations -- related party less current portion (Notes 2 and 8).....	501,032	473,200	592,253
Contracts payable for broadcast rights less current portion (Note 5).....	169,594	72,087	100,094
	-----	-----	-----
Total liabilities.....	5,396,235	5,078,102	5,359,382
	-----	-----	-----
Commitments (Note 9)			
STOCKHOLDERS' AND PARTNERS' EQUITY:			
Common stock -- no par value; 10,000 shares authorized; issued 4,500 shares.....	142,641	142,641	142,641
Retained earnings.....	1,650,193	1,097,533	1,203,466
Partners' equity.....	1,153,563	735,953	497,952
	-----	-----	-----
Total stockholders' and partners' equity.....	2,946,397	1,976,127	1,844,059
	-----	-----	-----
Total liabilities and stockholders' and partners' equity.....	\$ 8,342,632	\$7,054,229	\$7,203,441
	=====	=====	=====

See accompanying notes to combined financial statements.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

COMBINED STATEMENTS OF INCOME AND STOCKHOLDERS'
AND PARTNERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
	-----	-----	-----
		(UNAUDITED)	(UNAUDITED)
REVENUES:			
Sales:			
Local.....	\$1,596,135	\$ 1,631,390	\$ 1,566,600
Regional.....	2,823,514	2,157,497	2,222,178
National.....	1,511,000	1,397,332	1,390,684
Barter transactions.....	69,420	108,880	105,914
	-----	-----	-----
Total sales.....	6,000,069	5,295,099	5,285,376
	-----	-----	-----
LESS COMMISSIONS:			
Agency.....	(743,803)	(590,481)	(599,079)
Representatives.....	(101,094)	(94,995)	(94,464)
	-----	-----	-----
Total commissions.....	(844,897)	(685,476)	(693,543)
	-----	-----	-----
Net sales.....	5,155,172	4,609,623	4,591,833
CBS income.....	897,179	942,554	935,319
Production income.....	38,789	48,330	69,020
Other.....	10,818	3,595	7,912
	-----	-----	-----
Total revenues.....	6,101,958	5,604,102	5,604,084
	-----	-----	-----
OPERATING EXPENSES:			
Technical.....	282,261	302,984	281,425
Programming.....	1,166,608	1,075,167	1,058,516
Sales.....	549,422	525,582	614,435
General (Note 2).....	1,639,130	1,610,016	1,547,380
Depreciation.....	442,290	408,918	426,101
Amortization of goodwill.....	106,240	106,240	106,240
	-----	-----	-----
Total operating expenses.....	4,185,951	4,028,907	4,034,097
	-----	-----	-----
Income from operations.....	1,916,007	1,575,195	1,569,987
OTHER INCOME (EXPENSES):			
Interest expense (Notes 2 and 6).....	(472,213)	(478,070)	(497,159)
Gain on sale of equipment.....	33,765	6,850	2,575
	-----	-----	-----
Income before income taxes.....	1,477,559	1,103,975	1,075,403
Income taxes -- state.....	36,391	20,628	29,091
	-----	-----	-----
Net income.....	1,441,168	1,083,347	1,046,312
Distributions.....	(470,898)	(951,279)	(556,354)
Stockholders' and partners' equity, beginning of year.....	1,976,127	1,844,059	1,354,101
	-----	-----	-----
Stockholders' and partners' equity, end of year.....	\$2,946,397	\$ 1,976,127	\$ 1,844,059
	=====	=====	=====

See accompanying notes to combined financial statements.

KXII BROADCASTERS, INC.
KXII TELEVISION, LTD.

COMBINED STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
		(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$1,441,168	\$ 1,083,347	\$1,046,312
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	442,290	408,918	426,101
Amortization of goodwill.....	106,240	106,240	106,240
Amortization of broadcast rights.....	115,917	87,774	90,544
Gain on sale of equipment.....	(33,765)	(6,850)	(2,575)
Payments on contracts payable for broadcast rights.....	(88,684)	(72,153)	(64,981)
Change in operating assets and liabilities:			
Increase in trade accounts receivable.....	(192,491)	(442)	(69,480)
Increase in employee accounts receivable.....	(30,462)	(2,723)	(4,165)
Decrease (increase) in prepaid expenses and other assets.....	3,801	(6,026)	708
Increase (decrease) in accounts payable.....	10,108	(45,240)	(234,731)
Increase (decrease) in accrued liabilities.....	88,084	(10,153)	103,285
	-----	-----	-----
Net cash provided by operating activities.....	1,862,206	1,542,692	1,397,258
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of equipment.....	33,765	6,850	2,575
Capital expenditures.....	(417,873)	(404,623)	(313,298)
	-----	-----	-----
Net cash used in investing activities.....	(384,108)	(397,773)	(310,723)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on capital lease obligations.....	(138,850)	(120,621)	(128,575)
Payments on long-term debt.....	(66,850)	(60,563)	(104,867)
Distributions to shareholders and partners.....	(470,898)	(951,279)	(556,354)
	-----	-----	-----
Net cash used in financing activities.....	(676,598)	(1,132,463)	(789,796)
	-----	-----	-----
Net increase in cash.....	801,500	12,456	296,739
Cash at beginning of year.....	455,860	443,404	146,665
	-----	-----	-----
Cash at end of year.....	\$1,257,360	\$ 455,860	\$ 443,404
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest.....	\$ 437,883	\$ 472,787	\$ 530,497
	=====	=====	=====
Income taxes -- state.....	\$ 20,628	\$ 29,091	\$ 36,189
	=====	=====	=====

See accompanying notes to combined financial statements.

KXII BROADCASTING, INC.
KXII TELEVISION, LTD.

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(UNAUDITED FOR 1997 AND 1996)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPAL BUSINESS ACTIVITY

These combined financial statements include the accounts of KXII Broadcasters, Inc. ("KXII, Inc.") and KXII Television, Ltd. ("KXII, Ltd.") (collectively, the "Companies"). KXII, Inc. is an S Corporation that was created in December 1992 to hold the assets, FCC license and CBS network affiliation agreement for the operation of KXII Television Channel 12 ("KXII Channel 12"). KXII Channel 12 is a television broadcasting station with studios in Sherman, Texas and Ardmore, Oklahoma. KXII Channel 12's broadcast signal covers a radius of 75 miles in north Texas and south Oklahoma. As part of the broadcast operations, KXII, Inc. extends credit to advertising clients in the broadcast area.

KXII, Ltd. (a limited partnership) was formed in January 1996 to support the operations of KXII, Inc. by supplying the sales and marketing activities of KXII Channel 12. KXII, Inc. is the general partner of KXII, Ltd., while the other limited partners of KXII, Ltd. are the same individuals as the shareholders of KXII, Inc.

(B) PRINCIPLES OF COMBINATION

The accompanying combined financial statements present the combination of the financial statements of KXII, Inc. and KXII, Ltd. in order to give a more accurate presentation of the operations of KXII Channel 12. Material intercompany transactions and balances have been eliminated in combination.

(C) CASH EQUIVALENTS

The Companies consider all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 1998, 1997 or 1996.

(D) PROPERTY, PLANT AND EQUIPMENT

Property and equipment are valued at cost. Plant and equipment under capital leases are stated at the present value of minimum lease payments. Maintenance and repair costs are charged to expense as incurred. Gains and losses on disposition of property and equipment are reflected in income. Depreciation is computed on the straight-line and accelerated methods for financial accounting purposes, based on the estimated useful lives of the assets which range from five to thirty nine years.

(E) GOODWILL

Goodwill represents the excess cost over net assets acquired when KXII Channel 12 was purchased by a related entity in 1986. On December 31, 1992, the operating assets of

KXII BROADCASTING, INC.
KXII TELEVISION, LTD.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

KXII Channel 12 were transferred to KXII, Inc. In addition, certain assets of K-Twelve, Ltd. were purchased for \$4,249,591 by KXII, Inc. for a note payable to the related entity. The goodwill is being amortized on a straight-line basis over 40 years. KXII, Inc. assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation.

(F) BARTER TRANSACTIONS

The Companies enter into agreements in which advertising time is traded for various products or services. Barter transactions are reported at the normal advertising rates in effect. Revenue or expense and a corresponding asset or liability are reported when advertisements are aired or when goods and services are received.

(G) ADVERTISING

Advertising costs, which are principally included in sales expenses, are expensed as incurred. Advertising expense was \$26,373, \$42,059, and \$7,210 for the years ended December 31, 1998, 1997, and 1996, respectively.

(H) INCOME TAXES

KXII, Inc. is an S corporation pursuant to the Internal Revenue Service Code. In general, the federal income tax which results from taxable income generated in an S corporation is the liability of the individual stockholders.

KXII, Ltd. is taxed as a partnership. No provision is made for income taxes, since a partnership is not a taxable entity. The income of the partnership flows through to the partners to be taxed at the individual level.

Taxes on income which are reflected in the combined financial statements represent current state franchise taxes for Texas and Oklahoma.

(I) FCC LICENSE AND CBS NETWORK AFFILIATION AGREEMENT

KXII, Inc. has received an FCC license dated July 24, 1998 which expires in August 2006. This license allows KXII, Inc. to broadcast its signal for KXII Channel 12.

KXII, Inc. also has a network affiliation agreement with CBS for the period January 1, 1996 to December 31, 2000. Under the agreement, KXII, Inc. will receive various payments as well as television programs and advertising from CBS as part of the agreement to air CBS programming.

(J) BROADCAST RIGHTS

Broadcast rights consist principally of rights to broadcast syndicated programs, sports and feature films and are stated at the lower of cost or estimated net realizable value. The

KXII BROADCASTING, INC.
KXII TELEVISION, LTD.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

total cost of these rights is recorded as an asset and a liability when the program becomes available for broadcast. The amount recorded as an asset is charged to operations based on the number of programs to be aired over the broadcast period. The liability is reduced as payments are made on the contract. The current portion of broadcast rights represents those rights available for broadcast that are expected to be amortized in the succeeding year.

(K) USE OF ESTIMATES

The preparation of the accompanying combined financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

(L) CREDIT RISK CONCENTRATIONS

At December 31, 1998, and at various times during the three years then ended, the balance of cash at one financial institution exceeded the amount of federal deposit insurance coverage.

2. RELATED PARTY TRANSACTIONS

K-Twelve, Ltd. is a limited partnership, which is largely owned by the same shareholders as KXII, Inc. KXII, Inc. remitted \$335,396 to K-Twelve, Ltd. in each of 1998, 1997 and 1996 in connection with the use of various assets and services provided. Because this transaction is between related parties, it has been recorded as a capital lease and management fee for financial statements purposes. Principal and interest payments of \$113,617 have been recorded to represent a capital lease for the broadcast studios and equipment in Sherman, Texas and Ardmore, Oklahoma, with the remainder, \$221,779, reflected as management fees. KXII, Inc. also has a note payable to K-Twelve, Ltd. for the purchase of certain assets in 1992, which is discussed further in Note 6.

KXII, Inc. also leases certain equipment under capital lease arrangements from an entity which is owned in part by a shareholder of KXII, Inc., as discussed in Note 8.

Other transactions resulting in payments to related parties were as follows:

- Note payable of \$99,524 as of December 31, 1998, 1997, and 1996 and accrued interest payable of \$24,458, \$18,487, and \$12,515 at December 31, 1998, 1997, and 1996, respectively, to a director of KXII, Inc. Interest expense of \$5,971 was accrued during each of 1998, 1997, and 1996.
- Management fees of \$199,200, \$199,200, and \$124,500 were paid during 1998, 1997, and 1996, respectively, to officers of KXII, Inc. Management fees of \$49,800, \$49,800, and \$124,500 were paid during 1998, 1997, and 1996, respectively, to officers of KXII, Ltd.

KXII BROADCASTING, INC.
KXII TELEVISION, LTD.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

- Fees to the Board of Directors of KXII, Inc. of \$30,000 were paid during each of 1998, 1997, and 1996.
- At December 31, 1998, there was an advance of \$32,388 due from a shareholder of KXII, Inc.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 1998, 1997 and 1996 consisted of the following:

	1998	1997	1996	ESTIMATED USEFUL LIVES
	-----	-----	-----	-----
Buildings.....	\$ 562,318	562,318	559,566	15 to 39 years
Transmitter and tower.....	1,447,816	1,041,592	1,040,467	5 to 39 years
Equipment.....	2,267,128	2,546,230	2,452,027	5 to 7 years
Furniture and fixtures.....	261,880	367,917	350,183	5 to 7 years
Automobiles.....	372,405	344,690	296,880	5 years
Airplane.....	230,026	230,026	230,026	5 years
	-----	-----	-----	
	\$5,141,573	5,092,773	4,929,149	
	=====	=====	=====	

4. NOTE PAYABLE -- RELATED PARTY

As of January, 1995, KXII, Inc. purchased 500 shares of stock from a former stockholder for \$109,524. This amount was to be paid in installments through December 31, 1998, with interest on the unpaid balance at a per annum rate of 6%; however, it was still outstanding at December 31, 1998. At December 31, 1998, 1997, and 1996, there was a balance of \$99,524 owed to the former stockholder, plus accrued interest of \$24,458, \$18,487, and \$12,515 at December 31, 1998, 1997, and 1996, respectively.

5. CONTRACTS PAYABLE FOR BROADCAST RIGHTS

Contracts payable for broadcast rights are classified as current or long-term liabilities in accordance with the payment terms of the contracts. Required payments under contractual agreements for broadcast rights recorded at December 31, 1998 were as follows:

1999.....	\$156,370
2000.....	99,394
2001.....	10,530
2002.....	14,040
2003.....	14,040
Thereafter.....	31,590

	\$325,964
	=====

KXII BROADCASTING, INC.
KXII TELEVISION, LTD.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

6. LONG-TERM DEBT -- RELATED PARTY

On December 31, 1992, KXII, Inc., purchased certain assets of K-Twelve, Ltd. for a note payable in the amount of \$4,249,591. The note, which bears interest at 10% per annum, is due in quarterly payments of \$116,064, including interest, with the final payment due on December 31, 2017. The balance of the note was \$3,931,776, \$3,998,626, and \$4,059,189 at December 31, 1998, 1997, and 1996, respectively, and interest expense of \$397,407, \$403,695, and \$409,390 was accrued during 1998, 1997, and 1996, respectively. Following is a schedule of future debt payments at December 31, 1998.

1999.....	\$ 73,791
2000.....	81,450
2001.....	89,906
2002.....	99,239
2003.....	109,541
Thereafter.....	3,477,849

	3,931,776
Less current portion.....	73,791

	\$3,857,985
	=====

7. RETIREMENT PLAN

The Companies have an Individual Retirement Account Plan and Trust (the "Plan") for their employees. All employees who have completed at least three years of continuous service with one or more of the Companies are eligible to participate. In order to participate in the Plan, eligible employees are required to contribute to the trust a portion of their base annual compensation, which will be matched by the Companies' contribution of \$4.00 for every \$3.00 contributed by the employees. The maximum annual per-employee contribution to the Plan is \$600. The employees are fully vested in all contributions made to their trust accounts. The Companies made contributions of \$13,526, \$9,922, and \$11,520 for the years ended December 31, 1998, 1997, and 1996, respectively.

8. LEASES

KXII, Inc. leases certain equipment and buildings from related entities under capital leases. The equipment is capitalized in the combined balance sheet at net book value of \$902,975, \$596,994 and \$704,650 at December 31, 1998, 1997 and 1996, respectively. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 1998:

Year Ending December 31,	
1999.....	\$230,480
2000.....	220,637
2001.....	169,556

KXII BROADCASTING, INC.
KXII TELEVISION, LTD.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

2002.....	169,556
2003.....	23,308

Total minimum lease payments.....	813,537
Less: amount representing interest at 10.0% to 12.0%.....	143,314
Less: current portion.....	169,191

Long-term capital lease obligations less current portion....	\$501,032
	=====

9. COMMITMENTS

KXII, Inc. has a buy-sell agreement to purchase the stock of the station manager (500 shares) for book value as of the prior year-end, when and if certain "triggering events" occur. As of December 31, 1998, none of the "triggering events" had occurred.

KXII, Inc. has employment contracts with three key members of its broadcast team. These contracts provide stated annual salaries for two and three-year periods ending in 2000 and 2001.

Under various program license agreements, KXII, Inc. is obligated to broadcast certain programs a specified number of times. In addition, as stated in Note 1, KXII, Inc. has certain broadcast and other requirements in order to maintain its FCC license and CBS network affiliation.

10. SALE OF THE COMPANIES

KXII Broadcasters, Ltd. (see Note 11 below) and KXII, Ltd. have signed an agreement with Gray Communications Systems, Inc. to sell substantially all of the assets of the Companies for an aggregate purchase price of approximately \$41.5 million. An application for the transfer of license has been submitted to the Federal Communications Commission for approval.

11. SUBSEQUENT EVENTS

On April 19, 1999, the shareholders of KXII, Inc. contributed their stock to a newly formed corporation that subsequently contributed the stock to two newly formed subsidiaries. As permitted under the Texas Business Corporation Act and the Texas Revised Partnership Act, KXII, Inc. then was converted to a Texas limited partnership, KXII Broadcasters, Ltd. The broadcast operations of KXII Channel 12 will remain in the new partnership.