

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997.

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file numbers 33-84656 and 333-17773.

A. Full title of the plan and the address of the plan, if different  
from that of the issuer named below:

Gray Communications Systems, Inc.  
Capital Accumulation Plan

B. Name of issuer of the securities held pursuant to the plan and the  
address of its principal executive office:

Gray Communications Systems, Inc.  
126 N. Washington Street  
Albany, Georgia 31701

GRAY COMMUNICATIONS SYSTEMS, INC.

FORM 11-K

REQUIRED INFORMATION

- (a) Financial Statements. Filed as part of this Report on form 11-K are the financial statements and the schedules thereto of the Gray Communications Systems, Inc. Capital Accumulation Plan as required by Form 11-K, together with the report thereon of Ernst & Young LLP, independent auditors, dated June 18, 1998.
- (b) Exhibits. A consent of Ernst & Young LLP dated June 24, 1998 is being filed as an exhibit to this report.

SIGNATURES

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

GRAY COMMUNICATIONS SYSTEMS, INC.  
CAPITAL ACCUMULATION PLAN

Date: June 26, 1998

By: /S/ Frederick J. Erickson  
-----  
Frederick J. Erickson  
Interim Chief Financial Officer  
Plan Administrator

GRAY COMMUNICATIONS SYSTEMS, INC.

FORM 11-K

EXHIBIT INDEX

Exhibit Number	Exhibit	Page Number
----- 23	----- Consent of Ernst & Young LLP to incorporation of its report by reference in Gray Communications Systems, Inc. Registration Statement on Form S-8, No. 33-84656 and No. 333-17773.	----- 13

Audited Financial Statements and Schedules

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Years ended December 31, 1997 and 1996  
with Report of Independent Auditors

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Audited Financial Statements and Schedules

Years ended December 31, 1997 and 1996

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Statements of Net Assets Available for Benefits.....	2
Statements of Changes in Net Assets Available for Benefits.....	3
Notes to Financial Statements.....	4
Supplemental Schedules	
Line 27a - Schedule of Assets Held for Investment Purposes.....	10
Line 27d - Schedule of Reportable Transactions.....	11

Report of Independent Auditors

Benefit Committee  
Gray Communications Systems, Inc.

We have audited the accompanying statements of net assets available for benefits of the Gray Communications Systems, Inc. Capital Accumulation Plan as of December 31, 1997 and 1996, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 1997 and 1996 and the changes in its net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules of Assets Held for Investment Purposes as of December 31, 1997 and Reportable Transactions for the year ended December 31, 1997, are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Ernst & Young LLP

Columbus, Georgia  
June 18, 1998

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Statements of Net Assets Available for Benefits

	December 31	
	1997	1996
Assets		
Investments (Notes 2 and 4):		
Collective trust mutual funds	\$ 2,268,935	\$ 1,313,528
Sponsor's common stock fund	1,851,627	894,600
Participant loans receivable	37,151	10,343
	4,157,713	2,218,471
Sponsor contributions receivable	33,392	20,395
Participant contributions receivable	80,673	46,666
	114,065	67,061
Net assets available for benefits	\$ 4,271,778	\$ 2,285,532

See accompanying notes.

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Statements of Changes in Net Assets Available for Benefits

	Year ended December 31	
	1997	1996
<b>Additions</b>		
Participant contributions	\$ 1,020,712	\$ 675,985
Sponsor contributions	419,546	263,356
Rollover contributions	117,556	333,704
Investment income:		
Interest and dividend income	5,506	3,620
Net realized and unrealized appreciation of investments	800,118	129,692
	805,624	133,312
<b>Total additions</b>	<b>2,363,438</b>	<b>1,406,357</b>
<b>Deductions</b>		
Withdrawals by participants	(357,765)	(212,127)
Administrative and other expenses	(19,427)	(11,363)
<b>Total deductions</b>	<b>(377,192)</b>	<b>(223,490)</b>
<b>Net increase in assets available for benefits</b>	<b>1,986,246</b>	<b>1,182,867</b>
<b>Net assets available for benefits at beginning of period</b>	<b>2,285,532</b>	<b>1,102,665</b>
<b>Net assets available for benefits at end of period</b>	<b>\$ 4,271,778</b>	<b>\$ 2,285,532</b>

See accompanying notes.

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Notes to Financial Statements

December 31, 1997

1. Description of the Plan

The following brief description of the Gray Communications Systems, Inc. Capital Accumulation Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan Document for more complete information.

The Plan was established effective October 1, 1994 for the benefit of eligible employees of Gray Communications Systems, Inc., and of its subsidiaries and affiliates that subsequently adopt the Plan.

General

The Plan is a voluntary defined contribution plan for salaried and non-salaried employees of Gray Communications Systems, Inc. and its subsidiaries (the "Sponsor") who have completed one eligibility year of service as defined in the Plan document. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

While the Sponsor has not expressed any intent to do so, the Benefit Committee retains the right to terminate the Plan at any time, subject to the provisions of ERISA. In the event a decision is made by the Benefit Committee to terminate the Plan, all participants shall receive full distribution of the balance in their account.

Trust Agreement

Assets of the Plan are held for safekeeping and investment by INVESCO Trust Company (the "Trustee") as part of a trust agreement between the Sponsor and the Trustee.

Contributions

Each active Plan participant may make contributions up to a maximum of 16% of their compensation on a before-tax basis and up to a maximum of 16% on an after-tax basis, as long as the sum of the before-tax and after-tax percentages does not exceed 16%. Participant contributions made on a before-tax basis under Section 401(k) of the Internal Revenue Code (the "Code") can not exceed the elective contribution limit of \$9,500 during the years ended 1997 and 1996, respectively. Contributions by highly compensated employees are subject to additional restrictions.

The Sponsor shall contribute to the Plan a percentage, as determined by a declaration of its Board of Directors before the beginning of any Plan year, of the eligible contributions of plan participants not to exceed 6% of eligible compensation as defined in the Plan document. The matching percentage was 50% for the years ended December 31, 1997 and 1996, respectively. The Sponsor's matching contributions can be made either in shares of Gray Communications Systems, Inc. Class B common stock or in cash. Any forfeitures of Sponsor contributions are used to reduce future Sponsor contributions. Forfeitures of nonvested amounts were approximately \$33,200 and \$32,400 for the years ended December 31, 1997 and 1996, respectively.

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Vesting

Participants are fully vested with regard to their contributions. Participants vest in the Sponsor's contributions after completing five years of service, as defined in the Plan document.

Withdrawals

A participant may withdraw all or part of their after-tax contributions for any reason, subject to the suspension of such participant's rights to make after tax contributions for six months.

Hardship withdrawals may be available as defined by the Plan document. A participant making a hardship withdrawal is ineligible to contribute to the Plan for the next twelve months from the date of receipt of the withdrawal and is prohibited from making any elective or employee contributions to all other plans of the Sponsor, including, but not limited to, any stock option, stock purchase or similar plan maintained by the Sponsor.

Distributions

A participant, following termination of employment, can elect to have Plan benefits paid in a single lump-sum distribution, in installments or in a combination of the two methods.

Approximately \$74,500 and \$20,400 of the net assets available for benefits at December 31, 1997 and 1996, respectively, were allocated to the accounts of persons who had withdrawn from participation in the Plan, but had not been paid. Such amounts are recorded as benefits payable for purposes of the Plan's Form 5500.

Loans

The Plan provides for participant loans at rates of interest established by the Sponsor's Benefit Committee. Such loans are limited as defined by the Plan document.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared based on the accrual method of accounting with investments carried at fair values as described below.

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.

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

The collective trust mutual funds are valued at their redemption prices (fair values) as established by the Trustee. Generally, the fair values are based on national stock exchange closing prices or other published sources. Investments traded on a national securities exchange are valued at the last reported sales price on the last business day of the Plan year. Securities traded in the over-the-counter market are valued at the last reported sales price on the last business day of the Plan year.

Purchases and sales of securities are reflected on the trade dates. Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned.

Administrative Expenses

All administrative and investment expenses, except for fund management fees, are paid by the Sponsor. Administrative and investment expenses paid by the Sponsor were approximately \$13,600 and \$13,700 for the years ended December 31, 1997 and 1996, respectively.

3. Income Tax Status

The Internal Revenue Service ruled on October 25, 1995, that the Plan qualifies under Section 401(a) and 401(k) of the Internal Revenue Code ("IRC") and, therefore, the related trust is not subject to tax under present income tax law. The Plan is required to operate in conformity with Section 401(a) of the Code to maintain its qualification. Management of the Plan is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

4. Net Assets Available for Benefits

Participant contributions may be invested in collective investment trust mutual funds offered by the Trustee or in a fund invested primarily in the Sponsor's Class A and Class B common stock. Descriptions of the various funds are as follows: (a) Principal Protection Fund, which is 80% invested in short term money market instruments, intermediate government and corporate bond funds, and 20% in common stocks; (b) Intermediate Return Fund, which is 40% invested in short term money market instruments, 20% in intermediate government and corporate bond funds, and 40% in common stock funds; (c) Growth and Income Fund, which is 20% invested in short term money market instruments, 20% in intermediate government and corporate bond funds and 60% in common stock funds; (d) Maximum Appreciation Fund, which is 20% invested in short term money market instruments and intermediate government and corporate bond funds and 80% invested in common stock funds; and/or (e) Gray Communications Systems, Inc. Common Stock Fund, which is invested primarily in Gray Communications Systems, Inc. Class A and Class B common stock. Participants elect the percentage invested in each fund in multiples of 10%. Contributions to the Gray Communications Systems, Inc. Common Stock Fund are temporarily invested in a Retirement Trust Liquid Asset Fund until used to purchase Gray Communications Systems, Inc. common stock. Participants cannot elect to participate in the Retirement Trust Liquid Asset Fund.

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Notes to Financial Statements (continued)

4. Net Assets Available for Benefits (continued)

The following represents the net assets available for benefits, by fund, as of December 31, 1997:

	Principal Protection Fund	Intermediate Return Fund	Growth and Income Fund	Maximum Appreciation Fund	Gray Communications Common Stock (Class A)
Investments:					
INVESTCO Trust Company collective trust mutual funds:					
Money market funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Equity funds	150,571	291,425	817,765	1,004,668	-0-
Common Stock of Sponsor	-0-	-0-	-0-	-0-	1,213,020
Participant notes receivable	-0-	-0-	-0-	-0-	-0-
	150,571	291,425	817,765	1,004,668	1,213,020
Sponsor contributions receivable	-0-	-0-	-0-	-0-	-0-
Participant contributions receivable	4,462	8,187	24,109	31,492	-0-
	\$155,033	\$ 299,612	\$ 841,874	\$ 1,036,160	\$ 1,213,020

	Gray Communications Common Stock (Class B)	Participant Loans Receivable	Retirement Trust Liquid Assets	Total
Investments:				
INVESTCO Trust Company collective trust mutual funds:				
Money market funds	\$ -0-	\$ -0-	\$ 4,506	\$ 4,506
Equity funds	-0-	-0-	-0-	2,264,429
Common Stock of Sponsor	638,607	-0-	-0-	1,851,627
Participant notes receivable	-0-	37,151	-0-	37,151
	638,607	37,151	4,506	4,157,713
Sponsor contributions receivable	33,392	-0-	-0-	33,392
Participant contributions receivable	12,423	-0-	-0-	80,673
	\$ 684,422	\$37,151	\$ 4,506	\$4,271,778

The changes in net assets available for benefits by fund for the year ended December 31, 1997 are as follows:

Principal Protection Fund	Intermediate Return Fund	Growth and Income Fund	Maximum Appreciation Fund	Gray Communications Common Stock (Class A)
---------------------------	--------------------------	------------------------	---------------------------	--

Contributions invested	\$ 44,500	\$ 89,551	\$ 289,011	\$ 355,280	\$ -0-
Contributions receivable	4,462	8,187	24,109	31,492	-0-
Rollover from other plans	8,238	6,414	27,510	50,735	-0-
Interest and dividend income	106	204	494	493	-0-
Net realized and unrealized appreciation of investments	19,880	35,546	109,647	147,813	345,916
Withdraws paid to participants	(92,494)	(25,360)	(52,766)	(72,508)	(97,891)
Participant loans/repayments (net)	(4,310)	(4,220)	(13,944)	(9,749)	(3,513)
Administrative and other expenses	(1,254)	(2,424)	(6,399)	(7,585)	(581)
Interfund transfers	1,276	(1,927)	13,012	12,702	43,179
	-----	-----	-----	-----	-----
	\$ (19,596)	\$ 105,971	\$ 390,674	\$ 508,673	\$ 287,110
	=====	=====	=====	=====	=====
Active participants at December 31, 1997	101	168	340	345	492
	=====	=====	=====	=====	=====

	Gray Communications Common Stock (Class B)	Participant Loans Receivable	Retirement Trust Liquid Assets	Total
Contributions invested	\$ 493,458	\$ -0-	\$54,393	\$1,326,193
Contributions receivable	45,815	-0-	-0-	114,065
Rollover from other plans	3,750	-0-	20,909	117,556
Interest and dividend income	-0-	-0-	4,209	5,506
Net realized and unrealized appreciation of investments	141,316	-0-	-0-	800,118
Withdraws paid to participants	(10,675)	(6,376)	305	(357,765)
Participant loans/repayments (net)	-0-	33,439	2,297	-0-
Administrative and other expenses	(549)	-0-	(635)	(19,427)
Interfund transfers	11,307	(255)	(79,294)	-0-
	-----	-----	-----	-----
	\$684,422	\$26,808	\$2,184	\$1,986,246
	=====	=====	=====	=====
Active participants at December 31, 1997	442	27		
	=====	=====		

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Notes to Financial Statements (continued)

4. Net Assets Available for Benefits (continued)

The following represents the net assets available for benefits, by fund, as of December 31, 1996:

	Principal Protection Fund	Intermediate Return Fund	Growth and Income Fund	Maximum Appreciation Fund	Gray Communications Common Stock
Investments:					
INVESTCO Trust Company collective trust mutual funds:					
Money market funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Equity funds	171,086	188,271	437,590	514,259	-0-
Common Stock of Sponsor	-0-	-0-	-0-	-0-	894,600
Participant notes receivable	-0-	-0-	-0-	-0-	-0-
	-----	-----	-----	-----	-----
	171,086	188,271	437,590	514,259	894,600
Sponsor contributions receivable	-0-	-0-	-0-	-0-	20,395
Participant contributions receivable	3,543	5,370	13,610	13,228	10,915
	=====	=====	=====	=====	=====
	\$174,629	\$193,641	\$451,200	\$527,487	\$ 925,910
	=====	=====	=====	=====	=====

	Participant Loans Receivable	Retirement Trust Liquid Assets	Total
Investments:			
INVESTCO Trust Company collective trust mutual funds:			
Money market funds	\$ -0-	\$ 2,322	\$ 2,322
Equity funds	-0-	-0-	1,311,206
Common Stock of Sponsor	-0-	-0-	894,600
Participant notes receivable	10,343	-0-	10,343
	-----	-----	-----
	10,343	2,322	\$ 2,218,471
Sponsor contributions receivable	-0-	-0-	20,395
Participant contributions receivable	-0-	-0-	46,666
	-----	-----	-----
	\$ 10,343	\$ 2,322	\$ 2,285,532
	=====	=====	=====

The changes in net assets available for benefits by fund for the year ended December 31, 1996 are as follows:

	Principal Protection Fund	Intermediate Return Fund	Growth and Income Fund	Maximum Appreciation Fund	Gray Communications Common Stock	Participant Loans Receivable	Retirement Trust Liquid Assets
Contributions invested	\$40,175	\$69,324	\$171,490	\$188,483	\$ 278,107	\$ -0-	\$124,701 872,280

Contributions receivable	3,543	5,370	13,610	13,228	31,310	-0-	-0-
Rollover from other plans	94,649	38,595	84,965	109,975	5,520	-0-	-0-
Interest and dividend income	-0-	34	63	100	-0-	-0-	3,423
Net realized and unrealized appreciation of investments	7,762	13,822	40,103	54,910	13,095	-0-	-0-
Withdraws paid to participants	(5,861)	(18,082)	(46,246)	(59,012)	(82,812)	-0-	(114)
Participant loans/ repayments (net)	(408)	(260)	(3,110)	(2,869)	(3,063)	9,380	330
Administrative and other expenses	(729)	(1,553)	(3,658)	(4,163)	(1,257)	-0-	(3)
Interfund transfers	-0-	3,241	(7,897)	(109)	133,277	-0-	(128,512)
	<u>\$139,131</u>	<u>\$110,491</u>	<u>\$249,320</u>	<u>\$300,543</u>	<u>\$ 374,177</u>	<u>\$ 9,380</u>	<u>\$ (175)</u>
Active participants at December 31, 1996	80	124	241	219	477	8	

	Total
Contributions invested	\$ 872,280
Contributions receivable	67,061
Rollover from other plans	333,704
Interest and dividend income	3,620
Net realized and unrealized appreciation of investments	129,692
Withdraws paid to participants	(212,127)
Participant loans/ repayments (net)	-0-
Administrative and other expenses	(11,363)
Interfund transfers	-0-
	<u>\$ 1,182,867</u>



Plan Number: 003  
 EIN: 58-0285030

Gray Communications Systems, Inc.  
 Capital Accumulation Plan

Line 27a - Schedule of Assets Held for Investment Purposes  
 December 31, 1997

Identity of Issue	No. of Units	Current Value	Historical Cost
INVESCO Trust Company			
Collective Trust Mutual Funds *:			
Liquid Assets Fund	4,506.100 units	\$ 4,506	\$ 4,506
Principal Protection Fund	10,334.294 units	150,571	131,778
Intermediate Return Fund	17,813.269 units	291,425	242,296
Growth and Income Fund	46,596.320 units	817,765	668,912
Maximum Appreciation Fund	54,130.844 units	1,004,668	806,143
		2,268,935	1,853,635
Total			
Sponsor Common Stock Fund -			
Gray Communications Systems, Inc.			
Common Stock - Class A*	46,210 shares	1,213,020	859,236
Common Stock - Class B*	24,800 shares	638,607	498,111
Participant loans		37,151	37,151
		\$ 4,157,713	\$ 3,248,133

\* This is a party-in-interest investment.

Plan Number: 003  
EIN: 58-0285030

Gray Communications Systems, Inc.  
Capital Accumulation Plan

Line 27d - Schedule of Reportable Transactions  
Year Ended December 31, 1997

Identity of Party Involved

Description of Asset

-----  
Category (iii) Series of Securities Transactions in Excess of 5% of Plan Assets

*Gray Communications Systems, Inc.	Gray Communications Systems, Inc. Common Stock - Class A Purchases of 6,406 shares Sales of 7,592 shares
*Gray Communications Systems, Inc.	Gray Communications Systems, Inc. Common Stock - Class B Purchases of 25,739 shares Sales of 939 shares
*INVESCO Trust Company	Principal Protection Fund Purchases of 4,360 units Sales of 7,106 units
*INVESCO Trust Company	Intermediate Return Fund Purchases of 6,953 units Sales of 2,502 units
*INVESCO Trust Company	Growth and Income Fund Purchases of 21,630 units Sales of 4,883 units
*INVESCO Trust Company	Maximum Appreciation Fund Purchases of 25,600 units Sales of 5,597 units
*INVESCO Trust Company	Liquid Asset Fund Purchases of 617,995 units Sales of 615,811 units

Category (i), (ii) or (iv) Transactions

There were no category (i), (ii) or (iv) transactions during 1997.

\* This is a party-in-interest investment.

Purchase Price	Selling Price	Cost of Asset	Current Value of Asset on Transaction Date	Net Gain (Loss)
\$ 123,191	\$ 150,686	\$ 123,191 139,887	\$ 123,191 150,686	\$ 10,799
516,196	18,905	516,196 18,085	516,196 18,905	820
59,787	100,182	59,787 89,650	59,787 100,182	10,532
105,432	37,823	105,432 32,250	105,432 37,823	5,573
349,264	78,736	349,264 65,012	349,264 78,736	13,724
435,077	92,481	435,077 73,233	435,077 92,481	19,248
617,995	615,811	617,995 615,811	617,995 615,811	-0-

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-84656 and Form S-8 No. 333-17773) pertaining to the Gray Communications Systems, Inc. Capital Accumulation Plan of our report dated June 18, 1998, with respect to the financial statements and schedules of the Gray Communications Systems, Inc. Capital Accumulation Plan included in this Annual Report (Form 11-K) for the year ended December 31, 1997.

/s/ Ernst & Young LLP

Columbus, Georgia  
June 24, 1998