

REGISTRATION NO. 333-4340

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 2  
TO

FORM S-1  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

GRAY COMMUNICATIONS SYSTEMS, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA  
(State or other  
jurisdiction of  
incorporation or  
organization)

4833  
(Primary Standard  
Industrial  
Classification Code  
Number)

58-0285030  
(I.R.S. Employer  
Identification Number)

126 NORTH WASHINGTON STREET  
ALBANY, GEORGIA 31701  
(912) 888-9390  
(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

WILLIAM A. FIELDER, III  
126 NORTH WASHINGTON STREET  
ALBANY, GEORGIA 31701  
(912) 434-8732  
(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

COPIES OF COMMUNICATIONS TO:

Henry O. Smith III, Esq.  
Proskauer Rose Goetz & Mendelsohn LLP  
1585 Broadway  
New York, New York 10036  
(212) 969-3000

John J. Kelley III, Esq.  
King & Spalding  
191 Peachtree Street  
Atlanta, Georgia 30303  
(404) 572-4600

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
AS SOON AS PRACTICABLE AFTER THE EFFECTIVENESS OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, check the following box. / /

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, please check the following box  
and list the Securities Act registration statement number of the earlier  
effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration number of the earlier effective registration statement for the same  
offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR  
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL  
FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION  
STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF  
THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME  
EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A),  
MAY DETERMINE.

GRAY COMMUNICATIONS SYSTEMS, INC.  
 CROSS-REFERENCE SHEET  
 (PURSUANT TO ITEM 501(B) OF REGULATION S-K)

ITEM NUMBER AND CAPTION	CAPTION OR LOCATION IN PROSPECTUS
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus.....	Outside Front Cover Page of Prospectus and Outside Front Cover Page
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front Cover Page; Available Information
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges.....	Prospectus Summary; Risk Factors; Not Applicable
4. Use of Proceeds.....	Prospectus Summary; The Phipps Acquisition, the KTVE Sale and the Financing
5. Determination of Offering Price.....	Outside Front Cover Page; Risk Factors; Underwriting
6. Dilution.....	Not Applicable
7. Selling Security Holders.....	Not Applicable
8. Plan of Distribution.....	Outside Front Cover Page; Underwriting
9. Description of Securities to be Registered.....	Outside Front Cover Page; Description of Capital Stock
10. Interests of Named Experts and Counsel.....	Not Applicable
11. Information with Respect to the Registrant.....	Prospectus Summary; The Phipps Acquisition, the KTVE Sale and the Financing; Capitalization; Pro Forma Financial Data; Selected Historical Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Security Ownership of Certain Beneficial Owners and Management; Certain Relationships and Related Transactions; Description of Certain Indebtedness; Description of Capital Stock
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable

SUBJECT TO COMPLETION DATED JULY 9, 1996

3,500,000 SHARES  
GRAY  
COMMUNICATIONS SYSTEMS, INC.

CLASS B COMMON STOCK  
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All the 3,500,000 shares of Class B Common Stock, no par value (the "Class B Common Stock"), offered hereby (this "Offering") are being sold by Gray Communications Systems, Inc. (the "Company"). Prior to this Offering, there has been no public market for the Class B Common Stock. The Company's Class A Common Stock, no par value (the "Class A Common Stock" and, together with the Class B Common Stock, the "Common Stock"), is listed on The New York Stock Exchange (the "NYSE") under the symbol "GCS." The initial public offering price of the Class B Common Stock will be based on the closing price of the Class A Common Stock on the date of the offering and will be determined through negotiations between the Company and the underwriters (the "Underwriters"). See "Underwriting." On July 3, 1996, the last reported sale price of the Class A Common Stock on the NYSE was \$22.625 per share. The Company intends to apply to list the Class B Common Stock on the NYSE. Concurrently herewith, the Company is offering (the "Concurrent Offering") \$150,000,000 principal amount of its % Senior Subordinated Notes due 2006 (the "Notes"). The Concurrent Offering is being made by separate prospectus. The closing of this Offering is not conditioned upon the closing of the Concurrent Offering.

The Company has two classes of common stock: Class A Common Stock and Class B Common Stock. The Class A Common Stock is identical to the Company's Class B Common Stock except with respect to voting power, with the Class A Common Stock having 10 votes per share, and the Class B Common Stock having one vote per share. Immediately after the consummation of this Offering and the Concurrent Offering, the Class B Common Stock will have approximately 7.3% of the outstanding voting power of the Company. See "Risk Factors -- Limited Voting Rights of Class B Common Shareholders; Control by Principal Shareholder" and "Description of Capital Stock."

SEE "RISK FACTORS" BEGINNING ON PAGE 14 FOR CERTAIN INFORMATION THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE CLASS B COMMON STOCK OFFERED HEREBY.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT (1)	PROCEEDS TO COMPANY (2)(3)
Per Share	\$	\$	\$
Total	\$	\$	\$

- (1) See "Underwriting" for a description of the indemnification arrangements with the Underwriters.
- (2) Before deducting expenses of the Offering payable by the Company, estimated to be approximately \$ .
- (3) The Company has granted the Underwriters a 30-day option to purchase up to 525,000 additional shares of Class B Common Stock solely to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be \$ , \$ , and \$ , respectively. See "Underwriting."

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The Class B Common Stock is offered severally by the Underwriters named herein, subject to prior sale, when, as, and if received and accepted by them, subject to their right to reject orders, in whole or in part, and to certain other conditions. It is expected that delivery of the certificates representing the Class B Common Stock will be made on or about , 1996.

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THE ROBINSON-HUMPHREY COMPANY, INC.  
ALLEN & COMPANY  
INCORPORATED  
J.C. BRADFORD & CO.  
J.P. MORGAN & CO.

[The graphic material to be included is a map of the southeastern part of the United States with logos of the television stations owned by the Company or that are part of the Phipps Business marking where the stations are located.]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CLASS B COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NYSE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## PROSPECTUS SUMMARY

THE FOLLOWING INFORMATION IS QUALIFIED IN ITS ENTIRETY BY, AND SHOULD BE READ IN CONJUNCTION WITH, THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS. AS USED HEREIN, UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY" MEANS GRAY COMMUNICATIONS SYSTEMS, INC. AND ITS SUBSIDIARIES. THE COMPANY HAS NOT YET CONSUMMATED THE PHIPPS ACQUISITION OR THE KTVE SALE (AS DEFINED) AND THERE CAN BE NO ASSURANCE THAT THE PHIPPS ACQUISITION OR THE KTVE SALE WILL BE CONSUMMATED. HOWEVER, EXCEPT WITH RESPECT TO HISTORICAL FINANCIAL STATEMENTS AND UNLESS THE CONTEXT INDICATES OTHERWISE, THE PHIPPS BUSINESS (AS DEFINED) IS INCLUDED IN, AND KTVE (AS DEFINED) IS EXCLUDED FROM, THE DESCRIPTION OF THE COMPANY. SEE "THE PHIPPS ACQUISITION, THE KTVE SALE AND THE FINANCING." UNLESS OTHERWISE INDICATED, THE INFORMATION IN THIS PROSPECTUS ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION GRANTED BY THE COMPANY TO THE UNDERWRITERS IN THIS OFFERING IS NOT EXERCISED. ALL INFORMATION IN THIS PROSPECTUS HAS BEEN ADJUSTED TO GIVE EFFECT TO A 3-FOR-2 SPLIT OF THE CLASS A COMMON STOCK, EFFECTED IN THE FORM OF A STOCK DIVIDEND DECLARED ON OCTOBER 2, 1995. UNLESS OTHERWISE INDICATED, ALL STATION RANK, IN-MARKET SHARE AND TELEVISION HOUSEHOLD DATA IN THIS PROSPECTUS ARE DERIVED FROM THE NIELSEN STATION INDEX, VIEWERS IN PROFILE, DATED NOVEMBER 1995, AS PREPARED BY A.C. NIELSEN COMPANY ("NIELSEN").

### THE COMPANY

The Company owns and operates seven network-affiliated television stations in medium-size markets in the southeastern United States, six of which are ranked number one in their respective markets. Five of the stations are affiliated with the CBS Television Network, a division of CBS, Inc. ("CBS") and two are affiliated with the NBC Television Network, a division of the National Broadcasting Company, Incorporated ("NBC"). In connection with the Phipps Acquisition (described below), the Company will be required under current regulations of the Federal Communications Commission (the "FCC") to divest its NBC affiliates in Albany, Georgia and Panama City, Florida. For a discussion of the Company's plans regarding such divestiture, see "Risk Factors -- FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing." The Company also owns and operates three daily newspapers, two weekly, advertising only publications ("shoppers"), and a paging business, all located in the Southeast. The Company derives significant operating advantages and cost saving synergies through the size of its television station group and the regional focus of its television and publishing operations. These advantages and synergies include (i) sharing television production facilities, equipment and regionally oriented programming, (ii) the ability to purchase television programming for the group as a whole, (iii) negotiating network affiliation agreements on a group basis and (iv) purchasing newsprint and other supplies in bulk. In addition, the Company believes that its regional focus can provide advertisers with an efficient network through which to advertise in the fast-growing Southeast.

In 1993, after the acquisition of a large block of Class A Common Stock by a new investor, the Company implemented a strategy to foster growth through strategic acquisitions. Since 1994, the Company's significant acquisitions have included three television stations and two newspapers, all located in the Southeast. As a result of the Company's acquisitions and in support of its growth strategy, the Company has added certain key members of management and has greatly expanded its operations in the television broadcasting and newspaper publishing businesses.

In January 1996, the Company acquired (the "Augusta Acquisition") WRDW-TV ("WRDW"), a CBS affiliate serving Augusta, Georgia (the "Augusta Business"). In December 1995, the Company entered into an asset purchase agreement to acquire (the "Phipps Acquisition") two CBS-affiliated stations, WCTV-TV ("WCTV") serving Tallahassee, Florida/Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, a satellite broadcasting business and a paging business (collectively, the "Phipps Business"). The Company believes that the Phipps Acquisition will further enhance the Company's position as a major regional television broadcaster and is highly attractive for a number of reasons, including (i) the stations' strategic fit in the Southeast, (ii) WCTV's leading station market position and WKXT's significant growth potential, (iii) strong station broadcast cash flows, (iv) opportunities for revenue growth utilizing the Company's extensive management expertise with medium-size stations and (v) opportunities for synergies between WCTV and WKXT and the Company's existing stations with regard to revenue enhancement and cost controls. The consummation of the Phipps Acquisition is currently expected to occur by September 1996, although there can be no assurance with respect thereto.

In May 1996, the Company entered into an agreement to sell (the "KTVE Sale") KTVE, Inc. ("KTVE") serving Monroe, Louisiana/El Dorado, Arkansas for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of the closing, which is expected to occur by September 1996, although there can be no assurance with respect thereto.

For the year ended December 31, 1995, on a pro forma basis, the Company had net revenues, Media Cash Flow (the sum of broadcast cash flow, publishing cash flow and paging cash flow), operating cash flow and net (loss) of \$90.6 million, \$30.3 million, \$28.1 million and \$(3.8) million, respectively. For the three months ended March 31, 1996, on a pro forma basis, the Company had net revenues, Media Cash Flow, operating cash flow and net (loss) of \$22.5 million, \$7.6 million, \$6.8 million and \$(810,000), respectively. Net revenues, Media Cash Flow and operating cash flow on a pro forma basis for the year ended December 31, 1995 increased 148.2%, 188.4% and 227.9%, respectively, while net income decreased 238.7% from the historical amounts for the year ended December 31, 1994. Net revenues, Media Cash Flow and operating cash flow on a pro forma basis for the three months ended March 31, 1996 increased 71.2%, 110.7% and 119.1%, respectively, while net income decreased 300.5% from the historical amounts for the three months ended March 31, 1995.

The following table sets forth certain information for each of the Company's television stations.

STATION	NETWORK AFFILIATION	MARKET	YEAR ACQUIRED	DMA RANK(1)	CHANNEL/FREQUENCY	STATION RANK IN DMA(2)	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV	PRO FORMA			
								YEAR ENDED DECEMBER 31, 1995		THREE MONTHS ENDED MARCH 31, 1996	
								NET REVENUES	OPERATING INCOME(6)	NET REVENUES	OPERATING INCOME(6)
								(IN THOUSANDS)		(IN THOUSANDS)	
WKYT	CBS	Lexington, KY	1994	68	27/UHF(3)	1	33%	\$15,553	\$5,247	\$3,823	\$1,130
WYMT	CBS	Hazard, KY	1994	68	57/UHF(3)	1(4)	24	3,721	831	1,042	230
WRDW	CBS	Augusta, GA	1996	111	12/VHF	1	36	8,888	1,853	2,080	482
WALB (5)	NBC	Albany, GA	1954	152	10/VHF	1	80	9,445	4,795	2,340	1,098
WJHG (5)	NBC	Panama City, FL	1960	159	7/VHF	1	53	3,843	270	1,099	150
PHIPPS ACQUISITION											
WKXT	CBS	Knoxville, TN		62	8/VHF	3	22	9,269	2,479	1,973	253
WCTV	CBS	Tallahassee, FL/Thomasville, GA		116	6/VHF	1	60	11,862	3,953	2,801	835

(1) Ranking of designated market area as defined by Nielsen ("DMA") served by a station among all DMAs is measured by the number of television households within the DMA based on the November 1995 Nielsen estimates.

(2) Represents station rank in DMA as determined by November 1995 Nielsen estimates of the number of television sets tuned to the Company's station as a percentage of the number of television sets in use in the market for the Sunday through Saturday 6 a.m. to 2 a.m. time period.

(3) All stations in the market are UHF stations.

(4) The market area served by WYMT is an 18-county trading area, as defined by Nielsen, and is included in the Lexington, Kentucky DMA. WYMT's station rank is based upon its position in the 18-county trading area.

(5) The Company will be required under current FCC regulations to divest WALB and WJHG in connection with the Phipps Acquisition. For a discussion of the Company's plans, see "Risk Factors-FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing."

(6) Represents pro forma income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes.

The Company's three newspapers, THE ALBANY HERALD, THE ROCKDALE CITIZEN and the GWINNETT DAILY POST and two shoppers, had net revenues and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes) of \$21.9 million and \$660,000, respectively, for the year ended December 31, 1995, and \$5.6 million and \$402,000 for the three months ended March 31, 1996, respectively. The satellite broadcasting business and paging business, which are a part of the Phipps Business, had net revenues and operating income (income before miscellaneous income (expense),

allocation of corporate overhead, interest expense and income taxes) of \$6.2 million and \$542,000 for the year ended December 31, 1995 and \$1.8 million and \$242,000 for the three months ended March 31, 1996, respectively.

## BUSINESS STRATEGY

The Company's business strategy includes the following key elements:

- **STRONG LOCAL PRESENCE.** Each of the Company's television stations seeks to achieve a distinct identity through its emphasis on local programming. A key objective is to build audience loyalty through the development of a strong local news franchise. Strong local news generates high viewership and results in higher ratings both for programs preceding and following the news, which increases revenues and Media Cash Flow.
- **REGIONAL FOCUS.** The Company believes its regional focus has competitive advantages, including the ability to purchase and produce programming that can be used by multiple Company-owned stations as well as the opportunity to sell advertising on multiple stations as a single buy. In addition, the proximity of the Company's operations allows the sharing of equipment, management and marketing expertise.
- **TARGETED MARKETING.** The Company seeks to increase its advertising revenues and Media Cash Flow by expanding existing relationships with local and national advertisers and by attracting new advertisers through targeted marketing techniques and carefully tailored programming. The Company works closely with advertisers to develop advertising campaigns that match specifically targeted audience segments including sponsoring and staging various special events such as fishing tournaments, boat shows and bridal expositions.
- **COST CONTROLS.** Through its strategic planning and annual budgeting processes, the Company continually seeks to identify and implement cost savings opportunities at each of its stations and publications in order to increase Media Cash Flow. The Company's ownership of multiple stations and publications also benefits each operation in negotiating favorable terms with programming syndicators, newsprint suppliers, national sales representatives and other vendors.
- **SELECTIVE ACQUISITIONS.** The Company has focused on acquiring television stations where the Company believes there is the potential for improvements in revenue share, audience share and cost control. The Company focuses on southeastern markets of medium size because the Company believes these markets offer superior opportunities in terms of projected population and economic growth, leading to higher advertising and circulation revenues. In assessing acquisitions, the Company targets stations and publications where it sees specific opportunities for revenue enhancement while controlling expenditures, utilizing management's significant experience with local and national advertising sales and in operating similar businesses. In appropriate circumstances, the Company will dispose of assets that it deems non-essential to its operating or growth strategy.

### THE PHIPPS ACQUISITION, THE KTVE SALE AND THE FINANCING

The Company has entered into an agreement to acquire WCTV and WKXT, a satellite broadcasting business and a paging business in the Southeast. The purchase price for the Phipps Acquisition is approximately \$185 million, including fees, expenses and working capital and other adjustments. The consummation of the Phipps Acquisition is expected to occur by September 1996, although there can be no assurance with respect thereto.

The Company has entered into an agreement, dated as of May 15, 1996 (the "KTVE Agreement"), with GOCOM Television of Ouachita, L.P. to sell KTVE for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of the closing (estimated to be approximately \$750,000), to the extent collected by the buyer, to be paid to the Company 150 days following the date of closing. The closing of the KTVE Sale is expected to occur by September 1996, although there can be no assurance with respect thereto. For the year ended December 31, 1995, KTVE had net revenues, Media Cash Flow and operating income (income before miscellaneous income (expense allocation of corporate overhead, interest expense and income taxes) of \$4.2 million, \$916,000 and \$437,000, respectively and \$1.1 million, \$213,000 and \$96,000 for the three months ended March 31, 1996. See "Risk Factors-Possible Non-Consummation of the KTVE Sale."



In addition to the consummation of the Phipps Acquisition and the KTVE Sale, the Company intends to implement a financing plan (the "Financing") to increase liquidity and improve operating and financial flexibility. Pursuant to the Financing, the Company will (i) retire approximately \$52.6 million aggregate principal amount of outstanding indebtedness under its senior secured bank credit facility (the "Old Credit Facility"), together with accrued interest thereon, (ii) retire approximately \$25.0 million aggregate principal amount of outstanding indebtedness under its senior note due 2003 (the "Senior Note"), together with accrued interest thereon and a prepayment fee, (iii) issue \$10 million liquidation preference of its Series A preferred stock (the "Series A Preferred Stock") in exchange for its outstanding \$10 million aggregate principal amount 8% subordinated note (the "8% Note") issued to Bull Run Corporation ("Bull Run"), a principal shareholder of the Company, (iv) issue to Bull Run \$10.0 million liquidation preference of its Series B preferred stock (the "Series B Preferred Stock" and together with the Series A Preferred Stock, the "Preferred Stock") with warrants to purchase up to 500,000 shares of Class A Common Stock (representing 10.1% of the currently issued and outstanding Class A Common Stock after giving effect to the exercise of such warrants) for cash proceeds of \$10.0 million and (v) enter into a new senior secured bank credit facility (the "Senior Credit Facility") to provide for a term loan and revolving credit facility aggregating \$125.0 million. The cash required for the consummation of the Phipps Acquisition, the repayment of indebtedness and related transaction costs will be provided by the net proceeds of this Offering, the Concurrent Offering, the sale of the Series B Preferred Stock and the warrants and the KTVE Sale. For a description of the Senior Credit Facility and the Preferred Stock, see "Description of Certain Indebtedness" and "Certain Relationships and Related Transactions-Issuances of Preferred Stock." The consummation of this Offering is not conditioned upon the concurrent consummation of the Financing, the KTVE Sale, the Phipps Acquisition or the Concurrent Offering. If the Phipps Acquisition is not consummated prior to , 1996, the Company is required to redeem the Notes on or prior to , 1996 (the "Special Redemption Date") at a redemption price (the "Special Redemption Price") equal to 101% of the principal amount of the Notes plus accrued and unpaid interest to the date fixed for such redemption (the "Trust Funds"). See "Description of the Notes."

The following table sets forth the estimated sources and uses of funds relating to the KTVE Sale, the Phipps Acquisition and the Financing:

(IN MILLIONS)	AMOUNT
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SOURCES OF FUNDS:	
The Class B Common Stock offered hereby	\$66.5
The Concurrent Offering	150.0
Sale of Series B Preferred Stock and Warrants	10.0
Borrowings under the Senior Credit Facility	42.2
The KTVE Sale	9.5
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TOTAL	\$278.2
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USES OF FUNDS:	
Consummation of Phipps Acquisition	\$185.0
Retire indebtedness under the Old Credit Facility (1)	52.6
Retire indebtedness under the Senior Note(2)	25.0
Fees and expenses (3)	15.6
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TOTAL	\$278.2
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(1) Borrowings under the Old Credit Facility bear interest at formula rates based upon the applicable London inter-bank offered rate ("LIBOR") or prime rate at the time of borrowing plus a fixed spread and have a final maturity of 2003. As of March 31, 1996, the interest rate was 8.96%.

(2) The indebtedness under the Senior Note bears interest at 10.7%.

(3) Fees and expenses include underwriting costs for this Offering and the Concurrent Offering, fees payable in connection with the negotiation and execution of the Senior Credit Facility, fees payable in connection with the retirement of the Senior Note and legal, accounting and other transaction fees. Does not include estimated taxes of \$2.8 million with respect to the KTVE Sale.

If the Phipps Acquisition is not consummated, the Company will redeem the Notes. The following table sets forth the estimated sources and uses of funds to consummate the KTVE Sale and the Financing and to redeem the Notes if the Phipps Acquisition is not consummated:

(IN MILLIONS)	AMOUNT
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SOURCES OF FUNDS:	
The Class B Common Stock offered hereby	\$ 66.5
The Concurrent Offering	150.0
Sale of Series B Preferred Stock and Warrants	10.0
Borrowings under the Senior Credit Facility	8.7
The KTVE Sale	9.5
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Total	\$ 244.7
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USES OF FUNDS:	
Redemption of the Notes	\$ 151.5(1)
Retire indebtedness under the Old Credit Facility (2)	52.6
Retire indebtedness under the Senior Note(3)	25.0
Fees and expenses (4)	15.6
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Total	\$ 244.7
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(1) Amount shown excludes interest accrued on the Notes from the date of issuance to the date of redemption.

(2) Borrowings under the Old Credit Facility bear interest at formula rates based upon the applicable LIBOR or prime rate at the time of borrowing plus a fixed spread and have a final maturity of 2003. As of March 31, 1996, the interest rate was 8.96%.

(3) The indebtedness under the Senior Note bears interest at 10.7%.

(4) Fees and expenses include underwriting costs for this Offering and the Concurrent Offering, fees payable in connection with the negotiation and execution of the Senior Credit Facility, fees payable in connection with the retirement of the Senior Note and legal, accounting and other transaction fees. Does not include estimated taxes of \$2.8 million with respect to the KTVE Sale. If the Phipps Acquisition is not consummated due to a default by the Company, the Company will be required to pay \$10.0 million as liquidated damages, however such amount is not included above.

Prior to the consummation of the Phipps Acquisition, the net proceeds of the Concurrent Offering, together with an amount sufficient to permit the Company to redeem the Notes on the Special Redemption Date at the Special Redemption Price, will be held by and pledged to the trustee under the Indenture for the Notes for the benefit of the holders of the Notes. The Trust Funds will be invested in cash equivalents. Prior to the consummation of the Phipps Acquisition, the proceeds of this Offering will be used to fund part of the Trust Funds and to repay indebtedness under the Old Credit Facility.

THE OFFERING

Class B Common Stock offered hereby.....	3,500,000 Shares
Common Stock to be Outstanding after this Offering (1)	
Class A Common Stock.....	4,462,832 Shares
Class B Common Stock.....	3,500,000 Shares
Total.....	7,962,832 Shares
Use of Proceeds by the Company.....	The Company intends to use the proceeds of this Offering, together with the proceeds of the Concurrent Offering and the proceeds of the Financing and the KTVE Sale for (i) the consummation of the Phipps Acquisition, (ii) the retirement of indebtedness under the Old Credit Facility, (iii) the retirement of indebtedness under the Senior Note and (iv) the payment of related fees and expenses. See "The Phipps Acquisition, the KTVE Sale and the Financing."
New York Stock Exchange Symbols:	
Class A Common Stock.....	GCS
Class B Common Stock (Proposed).....	
Concurrent Offering.....	Concurrently with this Offering, the Company is offering \$150,000,000 aggregate principal amount of its Notes by separate prospectus. The consummation of this Offering is not conditioned upon the concurrent consummation of the Financing, the KTVE Sale, the Phipps Acquisition or the Concurrent Offering.

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(1) Excludes (i) approximately 55,450 shares of Class A Common Stock issuable upon exercise of stock options outstanding under the Company's stock option plans as of March 31, 1996 and (ii) 987,500 shares of Class A Common Stock issuable upon exercise of outstanding warrants of the Company. See "Management" and "Certain Relationships and Related Transactions."

RISK FACTORS

See "Risk Factors" for a discussion of certain information that should be considered by prospective investors.

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The Company was incorporated in Georgia in 1897. The principal executive offices of the Company are located at 126 North Washington Street, Albany, Georgia 31701, telephone number (912) 888-9390.

SUMMARY PRO FORMA FINANCIAL DATA  
(DOLLARS IN THOUSANDS, EXCEPT RATIOS AND PER SHARE DATA)

The following table sets forth (i) unaudited condensed consolidated historical financial information of the Company and certain data derived therefrom, (ii) unaudited condensed consolidated pro forma financial information of the Company and certain data derived therefrom after giving effect to the Augusta Acquisition, this Offering, the Financing and the KTVE Sale and (iii) unaudited condensed consolidated pro forma combined financial information of the Company and certain data derived therefrom after giving effect to the foregoing, the Phipps Acquisition and the Concurrent Offering. The pro forma financial statements of the Company give effect to the Augusta Acquisition, the KTVE Sale, this Offering, the Financing, the Phipps Acquisition and the Concurrent Offering as if such transactions had occurred as of January 1, 1995 with respect to the statement of operations and data derived therefrom for the year ended December 31, 1995 and as of January 1, 1996 with respect to the statement of operations and data derived therefrom for the three months ended March 31, 1996 and as of December 31, 1995 and March 31, 1996 with respect to the balance sheet data derived therefrom as of such dates.

The Augusta Acquisition and the Phipps Acquisition are reflected using the purchase method of accounting for business combinations. The pro forma financial information is provided for comparative purposes only and does not purport to be indicative of the results that actually would have been obtained if the events set forth above had been effected on the dates indicated or of those results that may be obtained in the future. The pro forma financial statements are based on preliminary estimates of values and transaction costs. The actual recording of the transactions will be based on final appraisals, values and transaction costs. Accordingly, the actual recording of the transactions can be expected to differ from these pro forma financial statements.

	YEAR ENDED DECEMBER 31, 1995			THREE MONTHS ENDED MARCH 31, 1996		
	HISTORICAL COMPANY	PRO FORMA COMPANY	PRO FORMA COMBINED	HISTORICAL COMPANY	PRO FORMA COMPANY	PRO FORMA COMBINED
<b>Operating revenues:</b>						
Broadcasting (less agency commissions).....	\$ 36,750	\$ 41,450	\$ 63,874	\$ 11,450	\$ 10,384	\$ 15,592
Publishing.....	21,866	21,866	21,866	5,577	5,577	5,577
Paging.....	--	--	4,897	--	--	1,338
Total revenues.....	58,616	63,316	90,637	17,027	15,961	22,507
Total expenses.....	51,756	55,051	75,224	14,349	13,355	18,534
Operating income.....	6,860	8,265	15,413	2,678	2,606	3,973
Miscellaneous income (expense), net....	143	24	36	63	60	71
Income before interest expense and income taxes.....	7,003	8,289	15,449	2,741	2,666	4,044
Interest expense.....	5,438	1,497	21,252	2,157	333	5,272
Income (loss) before income taxes.....	1,565	6,792	(5,803)	584	2,333	(1,228)
Income tax expense (benefit).....	634	2,724	(1,967)	229	933	(418)
Net income (loss).....	931	4,068	(3,836)	355	1,400	(810)
Preferred stock dividends.....	--	1,400	1,400	--	350	350
Net income (loss) available to common stockholders.....	\$ 931	\$ 2,668	\$ (5,236)	\$ 355	\$ 1,050	\$ (1,160)
Average shares outstanding.....	4,481	7,999	7,854	4,607	8,107	7,944
Earnings (loss) per common share.....	\$ 0.21	\$ 0.33	\$ (0.67)	\$ 0.08	\$ 0.13	\$ (0.15)
<b>BALANCE SHEET DATA (AT END OF PERIOD):</b>						
Working capital (deficiency).....	\$ (221)	\$ 26,766	\$ 4,462	\$ 3,056	\$ 11,103	\$ 5,814
Total assets.....	78,240	136,000	299,786	113,517	117,084	300,123
Total debt.....	54,325	25,953	192,653	88,440	10,790	193,040
Total stockholders' equity.....	8,986	92,612	89,059	9,719	90,645	89,893
<b>OTHER DATA:</b>						
Media Cash Flow (1).....	\$ 15,559	\$ 17,448	\$ 30,345	\$ 4,965	\$ 4,752	\$ 7,553
Operating cash flow (2).....	13,309	15,197	28,094	4,197	3,976	6,784
EBITDA (3).....	13,140	15,151	28,134	4,133	3,927	6,744
<b>Cash flow provided by (used in):</b>						
Operating activities.....	7,600		8,943	3,119		3,379
Investing activities.....	(8,929)		(8,477)	(36,013)		(2,024)
Financing activities.....	1,331		(2,945)	34,416		337
Capital expenditures.....	\$ 3,280	\$ 3,202	\$ 6,390	\$ 814	\$ 814	\$ 1,524
Ratio of Media Cash Flow to interest expense.....	2.9	5.2	1.4	2.3	14.3	1.4
Ratio of operating cash flow to interest expense.....	2.4	4.6	1.3	1.9	11.9	1.3
Ratio of total debt to Media Cash Flow.....	3.5	1.5	6.3	5.2(5)	0.6(5)	6.2(5)
Ratio of total debt to operating cash						

flow.....	4.1	1.7	6.9	6.1(5)	0.7(5)	6.7(5)
Ratio of earnings to fixed charges						
(4).....	1.3	2.3	--	1.3	6.9	--

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- (1) Media Cash Flow represents operating income plus depreciation and amortization (including amortization of program license rights), non-cash compensation and corporate overhead, less payments of program license liabilities.
  - (2) Operating cash flow represents operating income plus depreciation, amortization (including amortization of program license rights) and non-cash compensation less payments for program license liabilities.
  - (3) EBITDA represents operating income plus (i) depreciation and amortization (excluding amortization of program license rights) and (ii) non-cash compensation paid in common stock (excluding such payments made to the 401(k) plan). EBITDA is presented not as a measure of operating results, but rather to provide additional information related to the Company's ability to service debt. EBITDA should not be considered as an alternative to either (x) operating income determined in accordance with generally accepted accounting principles ("GAAP") as an indicator of operating performance or (y) cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity.
  - (4) For purposes of this item "fixed charges" represent interest, the interest element of rental expense, capitalized interest and amortization of debt issuance costs and "earnings" represent income (loss) before income taxes, discontinued operations, extraordinary items, cumulative effect of change in accounting principles and fixed charges. Pro forma combined earnings would be insufficient to cover fixed charges for the year ended December 31, 1995 and the three months ended March 31, 1996 by \$5.8 million and \$1.2 million, respectively.
  - (5) Represents applicable ratios for the 12 month period ended March 31, 1996.

SUMMARY HISTORICAL FINANCIAL DATA  
 GRAY COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES  
 (DOLLARS IN THOUSANDS, EXCEPT RATIOS AND PER SHARE DATA)

Set forth below are certain selected historical consolidated financial data of the Company. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations of the Company." The selected consolidated financial data for, and as of the end of, each of the years in the four-year period ended December 31, 1995 are derived from the audited consolidated financial statements of the Company. The selected consolidated financial data for, and as of the year ended December 31, 1991 are derived from unaudited financial statements since the Company had a June 30 fiscal year end. The selected consolidated financial data for, and as of the three months ended March 31, 1995 and 1996 are derived from the unaudited consolidated financial statements of the Company and have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of the management of the Company, include all normal and recurring adjustments and accruals necessary for a fair presentation of such information.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1991	1992	1993	1994	1995	1995	1996
	(UNAUDITED)					(UNAUDITED)	
<b>STATEMENT OF INCOME DATA:</b>							
Operating revenues:							
Broadcasting (less agency commissions).....	\$ 13,553	\$ 15,131	\$ 15,004	\$ 22,826	\$ 36,750	\$ 8,350	\$ 11,450
Publishing.....	8,968	9,512	10,109	13,692	21,866	4,800	5,577
Total revenues.....	22,521	24,643	25,113	36,518	58,616	13,150	17,027
Expenses:							
Broadcasting.....	9,672	9,753	10,029	14,864	23,202	5,590	7,310
Publishing.....	6,444	6,752	7,662	11,198	20,016	3,961	4,808
Corporate and administrative.....	1,889	2,627	2,326	1,959	2,258	493	776
Depreciation.....	1,487	1,197	1,388	1,745	2,633	585	848
Amortization of intangible assets....	14	44	177	396	1,326	294	547
Non-cash compensation paid in common stock.....	--	--	--	80	2,321	236	60
Total expenses.....	19,506	20,373	21,582	30,242	51,756	11,159	14,349
Operating income.....	3,015	4,270	3,531	6,276	6,860	1,991	2,678
Miscellaneous income (expense), net....	778	(1,519)	202	189	143	43	63
Income from continuing operations before interest expense and income taxes.....							
	3,793	2,751	3,733	6,465	7,003	2,034	2,741
Interest expense.....	787	1,486	985	1,923	5,438	1,376	2,157
Income from continuing operations before income taxes.....							
	3,006	1,265	2,748	4,542	1,565	658	584
Income tax expense.....	1,156	869	1,068	1,776	634	254	229
Income from continuing operations.....	1,850	396	1,680	2,766	931	404	355

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1991	1992	1993	1994	1995	1995	1996
	(UNAUDITED)					(UNAUDITED)	
Discontinued business:							
Income (loss) from operations of discontinued business, net of applicable income tax expense (benefit) of (\$55), (\$79) and \$30, respectively.....	(90)	(129)	48	--	--	--	--
Gain on disposal of discontinued business, net of applicable income tax expense of \$501.....	--	--	818	--	--	--	--
Net income.....	\$ 1,760	\$ 267	\$ 2,546	\$ 2,766	\$ 931	\$ 404	\$ 355
Average outstanding common shares.....	6,469	4,668	4,611	4,689	4,481	4,308	4,607
Income from continuing operations per common share.....	\$ 0.29	\$ 0.09	\$ 0.36	\$ 0.59	\$ 0.21	\$ 0.09	\$ 0.08
Cash dividends per common share.....	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.08	\$ 0.02	\$ 0.02

BALANCE SHEET DATA (AT END OF PERIOD):							
Working capital (deficiency).....	\$ 6,740	\$ 2,976	\$ 2,579	\$ 1,075	\$ (221)	\$ 177	\$ 3,056
Total assets.....	31,548	24,173	21,372	68,789	78,240	71,094	113,517
Total debt.....	20,378	12,412	7,759	52,940	54,325	53,606	88,440
Total stockholders' equity.....	\$ 5,853	\$ 4,850	\$ 7,118	\$ 5,001	\$ 8,986	\$ 6,067	\$ 9,719

OTHER DATA:							
Media Cash Flow (1).....	\$ 6,405	\$ 8,079	\$ 7,371	\$ 10,522	\$ 15,559	\$ 3,585	\$ 4,965
Operating cash flow (2).....	4,516	5,452	5,044	8,567	13,309	3,097	4,197
EBITDA (3).....	4,516	5,512	5,095	8,498	13,140	3,106	4,133
Cash flows provided by (used in):							
Operating activities.....	\$ 3,499	\$ 4,832	\$ 1,324	\$ 5,798	\$ 7,600	\$ 1,520	\$ 3,119
Investing activities.....	(2,073)	(1,041)	3,062	(42,770)	(8,929)	(2,369)	(36,013)
Financing activities.....	(10,424)	(9,300)	(4,932)	37,200	1,331	582	34,416
Capital expenditures.....	\$ 2,235	\$ 2,216	\$ 2,582	\$ 1,768	\$ 3,280	\$ 973	\$ 814
Ratio of Media Cash Flow to interest expense.....	8.1	5.4	7.5	5.5	2.9	2.6	2.3
Ratio of operating cash flow to interest expense.....	5.7	3.7	5.1	4.5	2.4	2.2	1.9
Ratio of total debt to Media Cash Flow.....	3.2	1.5	1.1	5.0	3.5	4.2(5)	5.2(5)
Ratio of total debt to operating cash flow.....	4.5	2.3	1.5	6.2	4.1	5.1(5)	6.1(5)
Ratio of earnings to fixed charges (4).....	4.7	1.8	3.4	3.1	1.3	1.5	1.3

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

(2) Operating cash flow represents operating income plus depreciation, amortization (including amortization of program license rights) and non-cash compensation less payments for program license liabilities.

(3) EBITDA represents operating income plus (i) depreciation and amortization (excluding amortization of program license rights) and (ii) non-cash compensation paid in common stock (excluding such payments made to the 401(k) plan). EBITDA is presented not as a measure of operating results, but rather to provide additional information related to the Company's ability to service debt. EBITDA should not be considered as an alternative to either (x) operating income determined in accordance with GAAP as an indicator of operating performance or (y) cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity.

(4) For purposes of this item, "fixed charges" represent interest, the interest element of rental expense, capitalized interest and amortization of debt issuance costs and "earnings" represent income (loss) before income taxes, discontinued operations, extraordinary items, cumulative effect of change in accounting principles and fixed charges.

(5) Represents applicable ratios for the 12 month periods ended March 31, 1995 and 1996.





THE PHIPPS BUSINESS

Set forth below are certain selected historical financial data of the Phipps Business. This information should be read in conjunction with the Financial Statements of the Phipps Business and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations of the Phipps Business." The selected financial data for, and as of the end of, each of the years in the three-year period ended December 31, 1995 are derived from the audited financial statements of the Phipps Business. The selected financial data for, and as of the end of, each of the years ended December 31, 1991 and 1992 are derived from the unaudited accounting records of the Phipps Business. The selected financial data for, and as of the three months ended March 31, 1995 and 1996 are derived from the unaudited financial statements of the Phipps Business and have been prepared on the same basis as the audited financial statements and, in the opinion of management of the Phipps Business, include all normal and recurring adjustments and accruals necessary for a fair presentation of such information.

	YEAR ENDED DECEMBER 31					THREE MONTHS ENDED MARCH 31,	
	1991	1992(1)	1993	1994	1995	1995	1996
	(UNAUDITED)					(UNAUDITED)	
<b>STATEMENT OF INCOME DATA:</b>							
Operating revenues:							
Broadcasting (less agency commission).....	\$ 10,492	\$ 14,523	\$ 19,460	\$ 21,524	\$ 22,424	\$ 4,801	\$ 5,208
Paging.....	3,369	3,646	3,788	4,277	4,897	1,238	1,338
Total revenues.....	13,861	18,169	23,248	25,801	27,321	6,039	6,546
Expenses:							
Broadcasting.....	5,298	7,518	10,734	10,211	10,487	2,451	2,694
Paging.....	2,356	2,298	2,529	2,764	3,052	695	835
Management fee.....	579	973	2,462	2,486	3,280	769	371
Depreciation and amortization.....	1,513	1,734	2,836	2,672	3,120	700	759
Total expenses.....	9,746	12,523	18,561	18,133	19,939	4,615	4,659
Operating income.....	4,115	5,646	4,687	7,668	7,382	1,424	1,887
Miscellaneous income (expense), net.....	5	8	16	666	12	(4)	11
Income before interest expense and minority interests.....	4,120	5,654	4,703	8,334	7,394	1,420	1,898
Interest expense.....	162	442	632	480	499	114	92
Income before minority interests.....	3,958	5,212	4,071	7,854	6,895	1,306	1,806
Minority interests.....	--	331	140	635	547	58	80
Net income.....	\$ 3,958	\$ 4,881	\$ 3,931	\$ 7,219	\$ 6,348	\$ 1,248	\$ 1,726
Supplemental unaudited pro forma information: (2)							
Net income, as above.....	\$ 3,958	\$ 4,881	\$ 3,931	\$ 7,219	\$ 6,348	\$ 1,248	\$ 1,726
Pro forma provision for income tax expense.....	1,504	1,855	1,500	2,743	2,413	474	656
Pro forma net income.....	\$ 2,454	\$ 3,026	\$ 2,431	\$ 4,476	\$ 3,935	\$ 774	\$ 1,070
<b>BALANCE SHEET DATA (AT END OF PERIOD):</b>							
Working capital.....	\$ 595	\$ 615	\$ 1,127	\$ 1,421	\$ 2,622	\$ 1,308	\$ 1,528
Total assets.....	8,931	25,068	24,819	25,298	27,562	25,626	25,769
Total debt.....	1,388	7,697	6,542	6,065	4,810	5,731	4,071
Minority interests.....	--	1,154	824	728	586	671	438
Owner's equity.....	\$ 6,351	\$ 13,276	\$ 14,306	\$ 15,465	\$ 18,794	\$ 16,071	\$ 18,015

(IN THOUSANDS)	YEAR ENDED DECEMBER 31			THREE MONTHS ENDED	
	1993	1994	1995	MARCH 31, 1995	1996
	(UNAUDITED)				
OTHER DATA:					
Media Cash Flow (3).....	\$ 10,466	\$ 12,983	\$ 13,696	\$ 2,867	\$ 3,001
Operating cash flow (4).....	8,003	10,498	10,416	2,097	2,629
EBITDA (5).....	7,523	10,340	10,502	2,115	2,646
Cash flows provided by (used in):					
Operating activities.....	7,397	9,808	9,259	2,094	3,337
Investing activities.....	(2,953)	(2,506)	(3,828)	(965)	(295)
Financing activities.....	(4,418)	(7,233)	(4,906)	(1,092)	(3,476)
Capital expenditures.....	\$ 3,538	\$ 3,353	\$ 3,188	\$ 1,239	\$ 710

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- (1) Includes the acquisition of a majority interest in WKXT in July 1992, which was accounted for using the purchase method of accounting.
- (2) John H. Phipps, Inc. and its subsidiaries file a consolidated federal income tax return and separate state tax returns. Income tax expense for the Phipps Business is not presented in the financial statements as such amounts are computed and paid by John H. Phipps, Inc. Pro forma federal and state income taxes for the Phipps Business are calculated on a pro forma, separate return basis.
- (3) Media Cash Flow represents operating income plus depreciation, amortization (including amortization of program license rights) and corporate overhead, less payments of program license liabilities.
- (4) Operating cash flow represents operating income plus depreciation and amortization (including amortization of program license rights) less payments for program license liabilities.
- (5) EBITDA represents operating income plus depreciation and amortization (excluding amortization of program license rights). EBITDA is presented not as a measure of operating results, but rather to provide additional information related to the Company's ability to service debt. EBITDA should not be considered as an alternative to either (x) operating income determined in accordance with GAAP as an indicator of operating performance or (y) cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity.

## RISK FACTORS

IN ADDITION TO CONSIDERING THE OTHER INFORMATION SET FORTH IN THIS PROSPECTUS, PROSPECTIVE PURCHASERS OF THE CLASS B COMMON STOCK SHOULD CONSIDER CAREFULLY THE FOLLOWING FACTORS BEFORE DECIDING TO INVEST IN THE CLASS B COMMON STOCK.

**SUBSTANTIAL LEVERAGE.** The Company will have substantial indebtedness upon the consummation of this Offering and the Concurrent Offering. As of March 31, 1996, on a pro forma basis after giving effect to the KTVE Sale, this Offering, the Financing, the Phipps Acquisition and the Concurrent Offering, the Company and the Subsidiary Guarantors, on a consolidated basis, would have had outstanding \$193.0 million of indebtedness and stockholders' equity of \$89.9 million, with the ability, subject to certain limitations described herein, to incur approximately \$82.8 million of additional indebtedness pursuant to the Senior Credit Facility, none of which could have been borrowed thereunder due to the covenant restrictions contained in the Senior Credit Facility. As part of the Financing and as a condition of the Concurrent Offering, the Company will replace the Old Credit Facility with the Senior Credit Facility and the Company has entered into a commitment letter with respect thereto. See "Description of Certain Indebtedness." On a pro forma basis after giving effect to the Augusta Acquisition, the KTVE Sale, this Offering, the Financing, the Phipps Acquisition and the Concurrent Offering for the year ended December 31, 1995 and the three months ended March 31, 1996, the Company's pro forma combined earnings would have been insufficient to cover fixed charges by \$5.9 million and \$1.2 million, respectively. In addition, upon the consummation of this Offering, the Company will issue Series A and Series B Preferred Stock having annual dividend requirements of \$800,000 and \$600,000, respectively, which in the case of the Series B Preferred Stock, may, at the option of the Company, be paid in shares of Series B Preferred Stock. See "Certain Relationships and Related Transactions--Issuances of Preferred Stock."

The Company intends to pursue additional acquisitions of television stations, publications or related businesses and, in connection therewith, may incur substantial additional indebtedness or issue substantial additional preferred stock.

The degree to which the Company will be leveraged could have important consequences to holders of the Class B Common Stock, including the following: (i) the Company's ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes may be impaired; (ii) a substantial portion of the Company's cash flow from operations must be dedicated to the payment of principal and interest on its indebtedness and the payment of cash dividends on the Series A Preferred Stock; and (iii) a high degree of leverage may limit the Company's ability to react to changes in the industry, make the Company more vulnerable to economic downturns and limit its ability to withstand competitive pressures.

The Company's ability to service its debt and dividend obligations will depend upon its future operating performance which will be affected by prevailing economic conditions and financial and business factors, many of which are beyond the Company's control. If the Company cannot generate sufficient cash flow from operations to meet its obligations, then the Company may be required to restructure or refinance its debt, raise additional capital or take other actions such as selling assets or reducing or delaying capital expenditures. There can be no assurance, however, that any of such actions could be effected on satisfactory terms, if at all, or would be permitted by the terms of the Senior Credit Facility, the Indenture or the Company's other credit arrangements.

Certain of the Company's Senior Debt and the Notes contain restrictive covenants that, among other things, limit the Company's ability to incur additional indebtedness, create liens and make investments and capital expenditures. Such Senior Debt also requires the Company to comply with certain financial ratios and tests, under which the Company is required to achieve certain financial and operating results. The Company's ability to meet these financial ratios and tests may be affected by events beyond its control, and there can be no assurance that they will be met. The Company's ability to meet these financial ratios and tests may be affected by events beyond its control, and there can be no assurance that they will be met. A failure to

comply with the covenants and other provisions of its debt instruments could result in events of default under such instruments, which could permit acceleration of the debt under such instruments and in some cases acceleration of debt under other instruments that contain cross default or cross-acceleration provisions.

**LIMITATIONS ON ADDITIONAL INDEBTEDNESS -- EFFECT ON ACQUISITION STRATEGY.** The Company's strategy includes acquiring television stations and publications in the Southeast. However, the Company's ability to incur additional indebtedness will be limited by the terms of the Senior Credit Facility and the Notes. If the Company requires significant additional financing to fund acquisitions or operations or for other purposes, the consent of its lenders, or a refinancing of existing indebtedness, would be required. The Senior Credit Facility contains financial covenants and other operating restrictions which must be met, or consent to their modifications obtained, to permit acquisitions. There can be no assurance that the Company would be successful in obtaining such consents or refinancing. If the Company is unable to satisfy such financial covenants or obtain such consents or refinancing, it would not be able to pursue its acquisition strategy.

**CONSUMMATION OF THE PHIPPS ACQUISITION PRIOR TO FINAL FCC APPROVAL.** If the requisite FCC approval is obtained, the Company intends to consummate the Phipps Acquisition prior to the time such approval becomes "final" (that is, during the time a third party may file a petition for reconsideration of, or the FCC itself may reconsider, such approval) and the Company may cause the Trustee to release the proceeds of the Trust Funds for such purpose. If any such appeals are filed, the FCC may, under certain circumstances, reconsider its approval of the Phipps Acquisition. If any such appeal is successful, the FCC may impose a variety of remedies, including, among other things, requiring the Company to divest one or both of the acquired stations.

**FCC DIVESTITURE REQUIREMENT.** In connection with the Phipps Acquisition, the Company is seeking FCC approval granting the assignment of the television broadcast licenses for WCTV, which serves Tallahassee, Florida/Thomasville, Georgia, and WKXT, which serves Knoxville, Tennessee. The television broadcast signal of WCTV overlaps with the Company's existing stations, WALB-TV ("WALB") and WJHG-TV ("WJHG"). Due to such overlap, common ownership of such stations is prohibited by current FCC regulations. Such regulations will require the Company to divest its ownership interest in WALB and WJHG in connection with the Phipps Acquisition. However, these rules may be revised by the FCC upon conclusion of pending rulemaking proceedings. The Company has applied for six month waivers of such regulations. There can be no assurance that these waivers will be granted. Opposition to such waiver requests has been filed by a competing television station in Panama City, Florida. If granted, the waivers will afford the Company six months to divest WALB and WJHG following the consummation of the Phipps Acquisition (if such divestiture is necessary in order to comply with FCC rules in effect at the expiration of the waiver period).

In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Internal Revenue Code of 1986, as amended (the "Code"). If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC under the waivers, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. It is anticipated that the Company would be required to relinquish operating control of such assets to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness. WALB and WJHG accounted for 10.4% and 4.3%, respectively, of the Company's pro forma total revenues and 16.8% and 1.8%, respectively, of the Company's pro forma Media Cash Flow for the year ended December 31, 1995. On a pro forma basis for the year ended December 31, 1995, the stations had net income of \$2.6 million and \$51,000, respectively, while the Company had a net (loss) of \$(3.8) million. WALB and WJHG accounted for 10.4% and 4.9%, respectively, of the Company's pro forma total revenues and 15.5% and 2.9%, respectively, of the Company's pro forma Media Cash Flow for the three months ended March 31, 1996. On a pro forma basis for the three months ended March 31, 1996, the stations had net income of \$686,000 and \$103,000, respectively, while the Company had a net (loss)

of \$(810,000). No assurance can be given that the Company will be able to identify or enter into arrangements regarding suitable assets for a swap or sale satisfying the FCC divestiture requirements. In addition, there can be no assurance that the Company could effect a sale or swap on a timely basis or establish a trust on satisfactory terms. See "Pro Forma Financial Data" and "Business-Federal Regulation of the Company's Business."

**POSSIBLE NON-CONSUMMATION OF THE PHIPPS ACQUISITION.** The consummation of the Phipps Acquisition, which is anticipated to occur by September 1996, is subject to certain closing conditions, including receipt of FCC approval. There can be no assurance that FCC approval will be obtained or that the other closing conditions will be satisfied or waived. Upon the consummation of the Concurrent Offering and pending the consummation of the Phipps Acquisition, the Company will deposit the estimated net proceeds of \$144.7 million (before deducting expenses) from the Concurrent Offering plus an amount estimated to be sufficient to fund in full the redemption of the Notes in an interest-bearing trust account. If the Phipps Acquisition is not consummated on or prior to , 1996, the Company will be required to redeem the Notes for \$151.5 million plus accrued and unpaid interest to the date fixed for redemption. The Company expects that the interest rate earned on the funds deposited in the trust account will be less than the interest rate on the Notes. See "Description of the Notes."

In addition, if the Phipps Acquisition is not consummated as a result of a default by the Company, the Company will be required to pay \$10 million as liquidated damages.

For the year ended December 31, 1995, on a pro forma basis after giving effect to the Augusta Acquisition, the KTVE Sale, the Financing, this Offering and the Concurrent Offering, the Phipps Business comprised approximately 30.1%, 42.5% and 45.2% of the Company's total revenues, Media Cash Flow and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income tax expense), respectively. For the three months ended March 31, 1996, on a pro forma basis after giving effect to the KTVE Sale, the Financing, this Offering and the Concurrent Offering, the Phipps Business comprised approximately 29.1%, 37.0% and 33.5% of the Company's total revenues, Media Cash Flow and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income tax expense), respectively. If the Company does not consummate the Phipps Acquisition, the Company would have lower revenues, lower Media Cash Flow, higher cash balances and lower long-term debt. See "Pro Forma Financial Data."

**POSSIBLE NON-CONSUMMATION OF THE KTVE SALE.** The Company has entered into the KTVE Agreement with respect to the KTVE Sale, filed an application with the FCC to approve the assignment of KTVE's television broadcast license to the purchaser and has received preliminary approval thereof. The KTVE Agreement includes a number of closing conditions, including final FCC approval, and there can be no assurance that such closing conditions can be satisfied or waived. Neither the consummation of this Offering nor the Concurrent Offering is conditioned upon the KTVE Sale.

**DEPENDENCE ON ADVERTISING REVENUES; EFFECT OF ECONOMIC CONDITIONS.** The television and newspaper industries are cyclical in nature and are affected by prevailing economic conditions. Since the Company relies on sales of advertising time at its television stations and in its publications for substantially all of its revenues, the Company'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, all of the Company's stations and publications are located in the Southeast. As a result, the Company's results of operations may be adversely affected by recessionary economic conditions either in the Southeast, nationally or, due to the substantial portion of revenues derived from local advertisers, the local economies in areas served by its television stations and publications. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."

**DEPENDENCE ON NETWORK AFFILIATIONS.** Five of the Company's television stations are affiliated with CBS and two are affiliated with NBC. The television viewership levels for each of the stations are materially dependent upon programming provided by the network with which each station is affiliated. There can be no assurance that such programming will achieve or maintain satisfactory viewership levels in the future. Although the Company expects to continue to be able to renew these affiliation agreements, no assurance

can be given that such renewals will be obtained. Some of the Company's network affiliation agreements are to be renewed during the term of the Notes. The non-renewal or termination of one or more of the Company's stations' network affiliation agreements may have a material adverse effect on the Company's results of operations. See "Business-Network Affiliation of the Stations."

**COMPETITIVE NATURE OF AND RISK OF CHANGES IN THE TELEVISION INDUSTRY.** The television industry is highly competitive and the Company's stations compete with other television stations as well as other media for viewers and advertising revenues, such as newspapers, radio stations, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail and local cable systems. During the past decade, the entry of strong independent broadcast stations and programming alternatives such as cable television, home satellite delivery, home video and, more recently, direct broadcast satellite ("DBS") television and video signals delivered over telephone lines have subjected traditional network-affiliated television stations to new types of competition. Competition for programming involves negotiating with national program distributors or syndicators for exclusive rights to broadcast first-run or rerun packages of programming in a particular DMA.

The ability of each of the Company's stations to generate advertising revenues is dependent, to a significant degree, upon its audience ratings which, in turn, are dependent upon successful programming. There can be no assurance that any of the Company's stations will be able to maintain or increase its current quality of programming, audience share or advertising revenues. To the extent that certain of the Company's competitors have, or may in the future obtain, greater resources than the Company, the Company's ability to compete successfully in its broadcasting markets may be impeded. See "Business-Competition."

Further advances in technology and changes in the regulatory climate may increase competition for household audiences, programs and advertisers. In addition, the Warner Brothers Network ("WB") and the United Paramount Network ("UPN") recently have begun operations. Video compression technology currently under development, as well as other technological developments, have the potential to provide vastly expanded programming to highly targeted audiences. In addition, competition in the television industry in the future may come from interactive video and data services that may provide two-way interaction. The Company is unable to predict the effect that these or other technological changes will have on the television industry or the future results of the Company's operations.

The FCC has proposed the adoption of rules for implementing advanced (including high-definition television or HDTV) television service ("ATV") in the United States. Implementation of ATV will improve the technical quality of television. Under certain circumstances, however, conversion to ATV operations may reduce a station's geographical coverage area. While implementation of ATV will impose additional costs on the Company's television stations providing the new service primarily due to increased equipment costs, there is a potential for increased revenues. On July 26, 1995, the FCC announced the issuance of a Notice of Proposed Rule Making ("NPRM") to invite comment on a broad range of issues related to the implementation of ATV, particularly the transition to digital broadcasting. The FCC also stated that the NPRM would be followed by two additional proceedings and that a Final Report and Order which will launch the ATV system is anticipated sometime in 1997.

The Company cannot predict how the combination of business, regulatory and technological change will affect the broadcast industry or the Company's results of operations. See "Business-Federal Regulation of the Company's Business."

**COMPETITIVE NATURE OF THE NEWSPAPER INDUSTRY.** Revenue in the newspaper industry is derived primarily from advertising revenue and paid circulation. Competition for advertising and circulation revenue comes from local and regional newspapers, radio, broadcast and cable television, direct mail and other communications and advertising media. The extent and nature of such competition is in large part determined by the demographics and location of the markets and the media alternatives in those markets. To the extent that certain of the Company's competitors have, or may in the future obtain, greater resources than the Company, the Company's ability to compete successfully in its publishing markets may be impeded. See "Business-Competition."

The newspaper industry requires the availability of significant quantities of newsprint. The variability of newsprint costs in recent years has been a material factor in the profitability of the newspaper industry generally and has affected the results of the Company's newspaper operations.

**REGULATORY MATTERS.** The broadcasting and paging industries are subject to regulation by the FCC under the Communications Act of 1934, as amended (the "Communications Act") and the Telecommunications Act of 1996 (the "Telecommunications Act"). Approval by the FCC is required for the issuance, renewal, transfer or assignment of television station operating licenses. In particular, the Company's television business is dependent upon its continuing ability to hold television broadcast licenses from the FCC, which generally are issued for five-year terms. However, the Telecommunications Act now directs the FCC to extend the term of television broadcast licenses to eight years for license applications filed after May 1, 1995. The Company's existing television station licenses expire between 1997 and 1999. Although in the vast majority of cases such licenses are renewed by the FCC, there can be no assurance that any of the Company's television broadcast licenses will be renewed at their expiration dates for the full terms or at all. The non-renewal or limitation of one or more of the Company's television broadcast licenses could have a material adverse effect on the Company. The Telecommunications Act also addresses a wide variety of matters (including technological changes) that affect the operation and ownership of the Company's television stations. The Telecommunications Act eliminates the restrictions on the number of television stations an entity may own, operate or control and increases the national audience reach limitations to 35%. The FCC has been directed to adopt rules relating to the retention, modification or elimination of local ownership limitations and spectrum flexibility, including how to establish and collect fees from broadcasters for the implementation of ancillary and supplementary services.

The FCC has been directed to revise its rules to permit cross-ownership interests between a broadcast network and a cable system, and if necessary, to revise its rules to ensure carriage, channel positioning and non-discriminatory treatment of non-affiliated broadcast stations by cable systems affiliated with a broadcast network. The FCC has been directed to review all of its ownership rules every two years and currently has several broadcast related rulemaking proceedings underway. There can be no assurance that any such rulemakings or resulting changes would not materially adversely affect the Company.

The Company's paging operations are also subject to regulation by the FCC. The FCC licenses granted to the Company are for varying terms of up to 10 years, at the end of which renewal applications must be approved by the FCC. Although the Company is unaware of any circumstances which could prevent the grant of renewal applications, no assurance can be given that any of the Company's licenses will be free of competing applications or will be renewed by the FCC. Furthermore, the FCC has the authority to restrict the operation of licensed facilities or to revoke or modify licenses. See "Business-Federal Regulation of the Company's Business."

**RECENT ACQUISITION OF TELEVISION STATIONS AND PUBLICATIONS.** The Company acquired one newspaper and three shoppers in 1995 and consummated the Augusta Acquisition in 1996. The Phipps Acquisition and the KTVE Sale are pending and the Company will be required under current FCC regulations to divest WALB and WJHG in connection with the Phipps Acquisition. As a result, the majority of the Company's assets have, or will have been, recently acquired. Accordingly, there is no meaningful opportunity for prospective purchasers of the Class B Common Stock to evaluate the performance of these assets under the Company's management and there can be no assurance that the Company's operating strategy can be successfully implemented with respect to its newly acquired assets. See "Business."

**RISK OF INABILITY TO FINANCE CHANGE OF CONTROL OFFER.** A Change of Control under the Indenture would require the Company to refinance substantial amounts of indebtedness. In the event of a Change of Control, the Company has the obligation to offer to purchase all the outstanding Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. On a pro forma basis after giving effect to the Augusta Acquisition, the KTVE Sale, this Offering, the Financing, the Phipps Acquisition and the Concurrent Offering, the Company would not have sufficient funds available to purchase all of the outstanding Notes if they were tendered as a result of a Change of Control. In addition, covenants in the Senior Credit Facility would restrict the Company's ability to make any such purchase. In

the event of a Change of Control, there can be no assurance that the Company would have available, or be able to obtain, sufficient funds through a refinancing of the Notes to be purchased or otherwise, or that the lenders under the Senior Credit Facility would permit any such purchase. A Change of Control of the Company also may cause an acceleration under other Senior Debt (including the Senior Credit Facility), in which case the subordination provisions of the Notes would require payment in full of all such accelerated Senior Debt before repurchase of the Notes. The inability to repay Senior Debt, if accelerated, and to effect an offer to repurchase the Notes upon a Change of Control would constitute events of default under the Indenture. Also, the requirement that the Company offer to repurchase the Notes and the obligation to prepay the amounts owing under the Company's existing indebtedness and the reduction of the commitments thereunder to zero in the event of a Change of Control may have the effect of deterring a third party from acquiring the Company in a transaction that would constitute a Change of Control.

**LIMITED VOTING RIGHTS OF CLASS B COMMON SHAREHOLDERS; CONTROL BY PRINCIPAL SHAREHOLDER.** Holders of Class B Common Stock are entitled to one vote per share on all matters submitted to a vote of shareholders and holders of Class A Common Stock are entitled to 10 votes per share. Immediately after the consummation of this Offering and the Concurrent Offering, the Class B Common Stock will have approximately 7.3% of the outstanding voting power of the Company. Bull Run and its affiliates collectively beneficially own % of the outstanding shares of Class A Common Stock representing approximately % of the total voting power of the Company's common stock after giving effect to this Offering. In connection with certain FCC applications, Bull Run and its affiliates have (i) agreed not to cause more than three of its designees to be elected to the Board of Directors of the Company, (ii) stated that Bull Run and its affiliates have acquired the common stock of the Company for investment purposes only and not with the intent to control the Company and (iii) agreed not to solicit proxies for votes on matters before the Company's shareholders. However, if such agreement is terminated for any reason, subject to applicable FCC regulations that require the FCC's prior consent, Bull Run and its affiliates could effectively control the election of a majority of the Company's directors and, thus, the operations and business of the Company as a whole. In addition, such stockholders may have the ability to prevent certain types of material transactions, including a change of control of the Company.

The disproportionate voting rights of the Class A Common Stock relative to the Class B Common Stock may make the Company a less attractive target for a takeover than it otherwise might be, or render more difficult or discourage a merger proposal or a tender offer.

**POTENTIAL CONFLICTS OF INTEREST.** Bull Run is in the business of making significant investments in existing companies and may from time to time acquire and hold controlling or noncontrolling interests in broadcasting or broadcasting-related businesses other than through the Company, some of which may compete with the Company. Bull Run and its affiliates may from time to time identify, pursue and consummate acquisitions of television stations or other broadcasting related businesses that would be complementary to the business of the Company and therefore such acquisition opportunities will not be available to the Company. In addition, Bull Run may from time to time identify and structure acquisitions for the Company and may receive customary finders fees in connection with such transactions. Certain affiliates of Bull Run have entered, and in the future may enter, into business relationships with the Company or its subsidiaries. See "Certain Relationship and Related Transactions."

**ANTI-TAKEOVER MEASURES.** The Company's Articles of Incorporation authorize the issuance of up to 20,000,000 shares of preferred stock. Other than the 1,000 shares of Series A Preferred Stock and the 1,000 shares of Series B Preferred Stock to be issued in the Financing, the Company has no current plans to issue any additional shares of preferred stock. However, because the rights and preferences for any series of preferred stock may be set by the Board in its sole discretion, the Company may issue preferred stock which has rights and preferences superior to the rights of holders of the Common Stock and thus may adversely effect the rights of holders of Common Stock. See "Description of Capital Stock -- Preferred Stock."

**NO PRIOR PUBLIC MARKET.** Prior to this Offering, there has been no public market for the Class B Common Stock. The Company intends to apply to list the Class B Common Stock on the NYSE. Nevertheless, there can no assurance that an active public trading market for the Class B Common Stock will develop



or be sustained. The initial public offering price of the Class B Common Stock will be based on the closing price of the Class A Common Stock on the date of offering and will be determined through negotiations between the Company and the Underwriters. There can be no assurance that the market price of the Class B Common Stock subsequent to this Offering will correlate to the market price of the Class A Common Stock. Factors such as market conditions in the television broadcast industry may have a significant impact on the market price of the Class B Common Stock.

SHARES ELIGIBLE FOR FUTURE SALE. Sales of a substantial number of shares of the Company's Class A Common Stock or Class B Common Stock in the public market following this Offering could adversely affect the market price for the Class B Common Stock. At March 31, 1996, after giving effect to this Offering, there would be 4,462,832 shares of Class A Common Stock and 3,500,000 shares of Class B Common Stock outstanding, of which \_\_\_\_\_ shares of Class A Common Stock and all the Class B Common Stock would be freely transferable. Bull Run and its affiliates and the Company's executive officers and directors who in the aggregate own \_\_\_\_\_ shares of Class A Common Stock and hold options or warrants to acquire an additional \_\_\_\_\_ shares of Class A Common Stock have agreed that they will not sell or otherwise dispose of any of their shares of Class A Common Stock or securities convertible into, or exercisable or exchangeable for, Class A Common Stock or Class B Common Stock without the consent of The Robinson-Humphrey Company, Inc. for a period of 180 days from the date of this Prospectus (the "180-Day Lockup Period"). If presented with such a request, the Underwriters would take into consideration the number of shares as to which such request related, the relative demand for additional shares of Class A Common Stock or Class B Common Stock in the market, and the price performance of the Class B Common Stock in the period following completion of this Offering.

THE PHIPPS ACQUISITION

GENERAL

The Company has entered into an agreement (the "Asset Purchase Agreement") to acquire two CBS-affiliated television stations, WCTV and WKXT, a satellite broadcasting business and a paging business in the Southeast. The consummation of the Phipps Acquisition is subject to certain closing conditions, including FCC approval. The Phipps Acquisition is currently expected to occur by September 1996; however, there can be no assurance that FCC approval will be obtained, that the other closing conditions will be satisfied or waived or that the Phipps Acquisition will be consummated.

THE ASSET PURCHASE AGREEMENT

On December 15, 1995 the Company entered into the Asset Purchase Agreement, which was amended on March 15, 1996 and provides for the purchase of the Phipps Business from Media Acquisition Partners, L.P. ("MAP"). The purchase price for the Phipps Acquisition is approximately \$185 million, including fees, expenses and working capital and certain other adjustments. Upon execution of the Asset Purchase Agreement, the Company deposited \$200,000 with MAP, which will be credited toward the purchase price or, if the Phipps Acquisition is not consummated, refunded to the Company net of MAP's out-of-pocket expenses incurred in connection with the transaction. The parties have agreed that \$15 million of the purchase price will be deposited into an escrow account to fund indemnification payments under the Asset Purchase Agreement. To the extent not utilized to fund such payments, the escrow funds shall be released to MAP over a seven-year period.

Pursuant to the Asset Purchase Agreement, the Company will acquire the assets constituting the Phipps Business and assume certain liabilities relating to the Phipps Business. MAP has agreed to indemnify the Company for certain liabilities incurred by the Company relating to the Phipps Business, including taxes, liabilities relating to certain employee benefit plans, certain environmental matters and undisclosed liabilities. However, the Asset Purchase Agreement provides that no party thereto shall be liable for indemnification (which is the exclusive legal remedy thereunder) in an amount in excess of the balance of escrowed funds. There can be no assurance that the escrowed funds will be sufficient to satisfy liabilities of the Phipps Business assumed by the Company.

Simultaneously with the execution of the Asset Purchase Agreement, MAP entered into agreements (the "Stock Purchase Agreements") to acquire all of the capital stock of John H. Phipps, Inc. ("Phipps"), which currently owns and operates the Phipps Business, together with certain limited partnership interests in the partnership that owns and operates WKXT (the general partner of which is Phipps), for an aggregate purchase price of approximately \$166 million, subject to working capital and certain other adjustments (of approximately \$10 million). The Company established a \$10 million standby letter of credit which may be drawn upon in full as liquidated damages if the Phipps Acquisition is not consummated as a result of a default by the Company.

The Asset Purchase Agreement and the Stock Purchase Agreements include representations and warranties with respect to the condition and operation of the Phipps Business, covenants as to the conduct of the Phipps Business prior to the closing and various closing conditions (including approval by the FCC).

DIVESTITURE REQUIREMENTS

In connection with the Phipps Acquisition, the Company will be required to divest WALB and WJHG under current FCC regulations due to common ownership restrictions on stations with overlapping signals. However, these rules may be revised by the FCC upon conclusion of pending rulemaking proceedings. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC under the waivers, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be

subject to the approval of the FCC. It is anticipated that the Company would be required to relinquish operating control of such assets to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness. No assurance can be given that the Company will be able to identify or enter into arrangements regarding suitable assets for a swap or sale satisfying the FCC divestiture requirements. In addition, there can be no assurance that the Company could effect a sale or swap on a timely basis or establish a trust on satisfactory terms.

#### THE KTVE SALE

The Company has entered into the KTVE Agreement to sell KTVE, the Company's NBC-affiliated station serving Monroe, Louisiana/El Dorado, Arkansas for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of closing (estimated to be approximately \$750,000), to the extent collected by the buyer, to be paid to the Company 150 days following the date of closing. The KTVE Agreement includes a number of closing conditions, including final FCC approval, and there can be no assurance that such closing conditions can be satisfied or waived. The closing of the KTVE Sale is expected to occur by September 1996. See "Risk Factors-Possible Non-Consummation of the KTVE Sale."

#### THE FINANCING

In addition to the consummation of the Phipps Acquisition and the KTVE Sale, the Company intends to implement the Financing to increase liquidity and improve operating and financial flexibility. Pursuant to the Financing, the Company will (i) retire approximately \$52.6 million aggregate principal amount of outstanding indebtedness under the Old Credit Facility, together with accrued interest thereon, (ii) retire approximately \$25.0 million aggregate principal amount of outstanding indebtedness under the Senior Note, together with accrued interest thereon and a prepayment fee, (iii) issue \$10.0 million liquidation preference of its Series A Preferred Stock in exchange for the 8% Note issued to Bull Run, (iv) issue to Bull Run \$10.0 million liquidation preference of its Series B Preferred Stock with warrants to purchase up to 500,000 shares of Class A Common Stock (representing 10.1% of the currently issued and outstanding Class A Common Stock after giving effect to the exercise of such warrants) for cash proceeds of \$10.0 million and (v) enter into the Senior Credit Facility to provide for a term loan and revolving credit facility aggregating \$125.0 million. The cash required for the consummation of the Phipps Acquisition, the repayment of indebtedness and related transaction costs will be provided by the net proceeds of this Offering, the Concurrent Offering, the sale of Series B Preferred Stock and the KTVE Sale. For a description of the Senior Credit Facility and the Preferred Stock, see "Description of Certain Indebtedness" and "Certain Relationships and Related Transactions-Issuances of Preferred Stock." The consummation of this Offering is not conditioned upon the concurrent consummation of the Financing, the KTVE Sale, the Phipps Acquisition or the Concurrent Offering. If the Phipps Acquisition is not consummated prior to , 1996, the Company is required to redeem the Notes at the Special Redemption Price. See "Description of the Notes."

SOURCES AND USES OF FUNDS FOR THE PHIPPS ACQUISITION, THE KTVE SALE AND THE FINANCING

The following table sets forth the estimated sources and uses of funds relating to the KTVE Sale, the Phipps Acquisition and the Financing. The actual amounts of sources and uses of funds may differ at the closing due to, among other things, the actual amount payable under the Asset Purchase Agreement and the amount of indebtedness outstanding under the Old Credit Facility.

(in millions)  
SOURCES OF FUNDS

	AMOUNT
	-----
The Class B Common Stock offered hereby	\$ 66.5
The Concurrent Offering	150.0
Sale of Series B Preferred Stock and Warrants	10.0
Borrowings under the Senior Credit Facility	42.2
The KTVE Sale	9.5
	-----
TOTAL	\$ 278.2
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	-----

USES OF FUNDS

Consummation of Phipps Acquisition	\$ 185.0
Retire indebtedness under the Old Credit Facility (1)	52.6
Retire indebtedness under the Senior Note (2)	25.0
Fees and expenses (3)	15.6
	-----
TOTAL	\$ 278.2
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	-----

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- (1) Borrowings under the Old Credit Facility bear interest at formula rates based upon the applicable LIBOR or prime rate at the time of borrowing plus a fixed spread and have a final maturity of 2003. As of March 31, 1996, the interest rate was 8.96%.
- (2) The indebtedness under the Senior Note bears interest at 10.7%
- (3) Fees and expenses include underwriting costs for this Offering and the Concurrent Offering, fees payable in connection with the negotiation and execution of the Senior Credit Facility, fees payable in connection with the retirement of the Senior Note and legal, accounting and other transaction fees. Does not include estimated taxes of \$2.8 million with respect to the KTVE Sale.

If the Phipps Acquisition is not consummated, the Company will redeem the Notes. The following table sets forth the estimated sources and uses of funds to consummate the KTVE Sale and the Financing and to redeem the Notes if the Phipps Acquisition is not consummated:

(in millions)  
SOURCES OF FUNDS

	AMOUNT
	-----
The Class B Common Stock offered hereby	\$ 66.5
The Concurrent Offering	150.0
Sale of Series B Preferred Stock and Warrants	10.0
Borrowings under the Senior Circuit Facility	8.7
The KTVE Sale	9.5
	-----
TOTAL	\$ 244.7
	-----
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USES OF FUNDS

Redemption of the Notes	\$ 151.5(1)
Retire indebtedness under the Old Credit Facility (2)	52.6

Retire indebtedness under the Senior Note (3)  
Fees and expenses (4)

25.0  
15.6

TOTAL

-----  
\$ 244.7  
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- (1) Amount shown excludes interest accrued on the Notes from the date of issuance to the date of redemption.
  - (2) Borrowings under the Old Credit Facility bear interest at formula rates based upon the applicable LIBOR or prime rate at the time of borrowing plus a fixed spread and have a final maturity of 2003. As of March 31, 1996, the interest rate was 8.96%.
  - (3) The indebtedness under the Senior Note bears interest at 10.7%.
  - (4) Fees and expenses include underwriting costs for this Offering and the Concurrent Offering, fees payable in connection with the negotiation and execution of the Senior Credit Facility, fees payable in connection with the retirement of the Senior Note and legal, accounting and other transaction fees. Does not include estimated taxes of \$2.8 million with respect to the KTVE Sale. If the Phipps Acquisition is not consummated due to a default by the Company, the Company will be required to pay \$10.0 million as liquidated damages, however such amount is not included.

PRICE RANGE OF CLASS A COMMON STOCK AND DIVIDEND POLICY

Prior to this Offering, there has been no established public trading market for the Class B Common Stock. The Company intends to apply to list the Class B Common Stock on the NYSE. Since June 30, 1995, the Company's Class A Common Stock has been listed and traded on the NYSE under the symbol "GCS." The following table sets forth the high and low sale prices (restated to give effect to the three-for-two stock split) of the Class A Common Stock as reported by the NYSE for the period after June 30, 1995 and, prior to such time, the high and low bid quotations as reported on the NASDAQ Small Cap Market.

	CLASS A COMMON STOCK		CASH DIVIDENDS DECLARED PER SHARE
	HIGH	LOW	
FISCAL 1994			
First Quarter.....	\$ 9.67	\$ 8.67	\$ .0133
Second Quarter.....	9.33	8.50	.0133
Third Quarter.....	9.83	9.33	.0133
Fourth Quarter.....	11.00	9.83	.0267
FISCAL 1995			
First Quarter.....	\$ 14.50	\$ 10.67	\$ .02
Second Quarter.....	19.33	14.50	.02
Third Quarter.....	24.33	16.75	.02
Fourth Quarter.....	22.38	16.38	.02
FISCAL 1996			
First Quarter.....	\$ 20.38	\$ 15.75	\$ .02
Second Quarter.....	23.25	18.73	.02
Third Quarter (through July 7, 1996).....	22.75	22.63	--

On July 3, 1996, the last reported sale price for the Class A Common Stock on the NYSE was \$22.625 per share. See "Risk Factors -- No Prior Public Market" and "Underwriting" for a description of the method of determining the offering price of the Class B Common Stock. As of March 31, 1996, the Company had 4,462,832 outstanding shares of Class A Common Stock held by approximately 228 shareholders of record.

The Company has paid a dividend on its Class A Common Stock since 1967. There can be no assurance of the Company's ability to continue to pay any dividends on either class of Common Stock. The Company's Articles of Incorporation require that the Class A Common Stock and the Class B Common Stock receive dividends on a PARI PASSU basis.

The Senior Credit Facility and the Notes each contain covenants that restrict the ability of the Company to pay dividends on its capital stock. However, the Company does not believe that such covenants currently materially limit its ability to pay dividends at the recent quarterly rate of \$.02. In addition to the foregoing, the declaration and payment of dividends on the Class A Common Stock and the Class B Common Stock are subject to the discretion of the Board of Directors. Any future payments of dividends will depend on the earnings and financial position of the Company and such other factors as the Board of Directors deems relevant.

CAPITALIZATION

The following table sets forth: (i) the historical consolidated capitalization of the Company as of March 31, 1996; (ii) the historical consolidated capitalization of the Company as adjusted to give effect, as of March 31, 1996 to the KTVE Sale, the Financing and this Offering and (iii) the historical consolidated capitalization of the Company as adjusted to give effect, as of March 31, 1996 to the KTVE Sale, this Offering, the Financing, the Phipps Acquisition and the Concurrent Offering. This table should be read in conjunction with the consolidated financial statements of the Company, including the notes thereto, and the Pro Forma Financial Statements and other information contained in this Prospectus.

	AS OF MARCH 31, 1996		
	HISTORICAL COMPANY	PRO FORMA COMPANY (INCLUDING THIS OFFERING, THE KTVE SALE AND THE FINANCING)	PRO FORMA, COMBINED AS ADJUSTED
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)			
Long-term debt:			
Old Credit Facility.....	\$52,600	\$ --	\$ --
Senior Credit Facility.....	--	9,950	42,200
Senior Note.....	25,000	--	--
The Notes.....	--	--	150,000
The 8% Note.....	10,000	--	--
Other.....	840	840	840
Total long-term debt (including current portion).....	88,440	10,790	193,040
STOCKHOLDERS' EQUITY:			
Series A Preferred Stock.....	--	10,000	10,000
Series B Preferred Stock.....	--	10,000	10,000
Class A Common Stock, no par value; authorized 10,000,000 shares; historical Company, pro forma Company and pro forma as adjusted 5,126,012 shares (1).....	7,263	7,263	7,263
Class B Common Stock, no par value; authorized 10,000,000 shares; historical Company no shares; pro forma Company and pro forma as adjusted 3,500,000 shares.....	--	61,050	61,050
Retained earnings.....	9,094	8,970	8,218
Treasury stock, 663,180 shares of Class A Common Stock.....	(6,638)	(6,638)	(6,638)
Total stockholders' equity.....	9,719	90,645	89,893
Total capitalization.....	\$98,159	\$101,435	\$282,933

(1) Excludes (i) 55,450 shares of Class A Common Stock issuable upon exercise of options outstanding under the Company's stock option plans and (ii) 987,500 shares of Class A Common Stock issuable upon exercise of certain warrants held by an affiliate at the Company. See "Management" and "Certain Relationships and Related Transactions."

PRO FORMA FINANCIAL DATA

The following unaudited condensed combined pro forma financial statements of the Company give effect to the Augusta Acquisition, the KTVE Sale, this Offering, the Phipps Acquisition, the Financing and the Concurrent Offering as if such transactions had occurred (i) with respect to the statement of operations, as of January 1, 1995 for the year ended December 31, 1995, as of April 1, 1995 for the 12 months ended March 31, 1996, and as of January 1, 1996 for the three months ended March 31, 1996 and (ii) with respect to the balance sheet, as of March 31, 1996. The Augusta Acquisition and the Phipps Acquisition are reflected using the purchase method of accounting for business combinations. The pro forma financial information is provided for comparative purposes only and does not purport to be indicative of the results that actually would have been obtained if the events set forth above had been effected on the dates indicated or of those results that may be obtained in the future. The pro forma financial statements are based on preliminary estimates of values and transaction costs. The actual recording of the transactions will be based on final appraisals, values and transaction costs. Accordingly, the actual recording of the transactions can be expected to differ from these pro forma financial statements.



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

	HISTORICAL		PRO FORMA			PRO FORMA
	COMPANY	AUGUSTA BUSINESS	ADJUSTMENTS FOR AUGUSTA ACQUISITION	PRO FORMA COMPANY	OFFERING	PRO FORMA COMPANY
STATEMENT OF OPERATIONS DATA:						
Operating revenues:						
Broadcasting (less agency commissions)	\$36,750	\$8,660	\$ 228(1)	\$45,638	\$ --	\$45,638
Publishing	21,866	--	--	21,866	--	21,866
Paging	--	--	--	--	--	--
Total revenues	58,616	8,660	228	67,504	--	67,504
Expenses:						
Broadcasting	23,202	5,774	228(1)	29,204	--	29,204
Publishing	20,016	--	--	20,016	--	20,016
Paging	--	--	--	--	--	--
Corporate and administrative	2,258	--	--	2,258	--	2,258
Depreciation	2,633	272	(52)(2)	2,853	--	2,853
Amortization of intangible assets	1,326	152	769(3)	2,247	(97)(7)	2,150
Non-cash compensation paid in common stock	2,321	--	--	2,321	--	2,321
Management fee	--	--	--	--	--	--
Total expenses	51,756	6,198	945	58,899	(97)	58,802
Operating income	6,860	2,462	(717)	8,605	97	8,702
Miscellaneous income (expense), net	143	(220)	128(4)	51	--	51
Income before interest expense, minority interests and income taxes	7,003	2,242	(589)	8,656	97	8,753
Interest expense	5,438	--	3,355(5)	8,793	(7,296)(7)	1,497
Income (loss) before minority interests and income taxes	1,565	2,242	(3,944)	(137)	7,393	7,256
Minority interests	--	--	--	--	--	--
Income (loss) before income taxes	1,565	2,242	(3,944)	(137)	7,393	7,256
Income tax expense (benefit)	634	--	(675)(6)	(41)	2,950(6)	2,909
Net income (loss)	931	2,242	(3,269)	(96)	4,443	4,347
Preferred stock dividends	--	--	--	--	1,400(8)	1,400
Net income (loss) available to common stockholders	\$ 931	\$2,242	\$(3,269)	\$ (96)	\$ 3,043	\$ 2,947
Average shares outstanding (19)	4,481			4,354		7,999
Earnings (loss) per share (20)	\$ 0.21			\$ (0.02)		\$ 0.37

	KTVE SALE(9)	PRO FORMA COMPANY	PHIPPS BUSINESS	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED(21)
STATEMENT OF OPERATIONS DATA:					
Operating revenues:					
Broadcasting (less agency commissions)	\$(4,188)	\$41,450	\$22,424	\$ --	\$63,874
Publishing	--	21,866	--	--	21,866
Paging	--	--	4,897	--	4,897
Total revenues	(4,188)	63,316	27,321	--	90,637
Expenses:					
Broadcasting	(3,313)	25,891	10,487	220(10) 436(11)	37,034
Publishing	--	20,016	--	--	20,016
Paging	--	--	3,052	143(11)	3,195
Corporate and administrative	--	2,258	--	--	2,258
Depreciation	(438)	2,415	2,385	(625)(12)	4,175
Amortization of intangible assets	--	2,150	735	3,514(13) (174)(14)	6,225
Non-cash compensation paid in common stock	--	2,321	--	--	2,321
Management fee	--	--	3,280	(3,280)(15)	--
Total expenses	(3,751)	55,051	19,939	234	75,224
Operating income	(437)	8,265	7,382	(234)	15,413
Miscellaneous income (expense), net	(27)	24	12	--	36
Income before interest expense, minority interests and income taxes	(464)	8,289	7,394	(234)	15,449
Interest expense	--	1,497	499	(499)(16) 19,755(17)	21,252

Income (loss) before minority interests and income taxes	(464)	6,792	6,895	(19,490)	(5,803)
Minority interests	--	--	547	(547)(18)	--
Income (loss) before income taxes	(464)	6,792	6,348	(18,943)	(5,803)
Income tax expense (benefit)	(185)	2,724	--	(4,691)(6)	(1,967)
Net income (loss)	(279)	4,068	6,348	(14,252)	(3,836)
Preferred stock dividends	--	1,400	--	--	1,400
Net income (loss) available to common stockholders	\$ (279)	\$ 2,668	\$6,348	\$(14,252)	\$(5,236)
Average shares outstanding (19)		7,999			7,854
Earnings (loss) per share (20)		\$ 0.33			\$ (0.67)

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

STATEMENT OF OPERATIONS -- YEAR ENDED DECEMBER 31, 1995

1. Reflects the classification of national sales representative commissions as an expense consistent with the presentation by the Company.
2. Reflects decreased annual depreciation resulting from the change in asset lives in connection with the preliminary allocation of the Augusta Acquisition purchase price to the newly acquired property and equipment, at fair market value.
3. Reflects annual amortization of \$107,000 on the Augusta Business' financing costs over a seven-year period. Also reflects the annual amortization of \$813,000 on the intangible assets associated with the Augusta Acquisition over a 40-year period.
4. Reflects the elimination of the corporate allocation to the Augusta Business by its previous owner which will not be incurred by the Company.
5. Reflects increased annual interest expense of \$155,000 for an interest rate adjustment on the Senior Note; increased annual interest expense of \$2.4 million on the Old Credit Facility at LIBOR plus 3.5%, based on an increase in the debt level subsequent to the Augusta Acquisition; and annual interest expense of \$800,000 on the 8% Note. Three month LIBOR on January 4, 1996 was approximately 5.625%.
6. Reflects the adjustment of the income tax provision to the estimated effective tax rate.
7. Reflects decreased annual amortization of deferred financing costs in connection with retirement of the Senior Note. Also reflects decreased annual interest expense of \$3.8 million on the Old Credit Facility resulting from the repayment of \$42.6 million in principal on the Old Credit Facility, bearing interest at an estimated rate of 8.96% per annum with the proceeds of this Offering. Also reflects a reduction of annual interest expense of \$2.7 million resulting from the retirement of the Senior Note and a reduction of annual interest expense of \$800,000 on the 8% Note which will be converted into Series A Preferred Stock. The pro forma statement of operations for the year ended December 31, 1995 does not include an extraordinary loss relating to a prepayment fee associated with the retirement of the Senior Note. See Pro Forma Statement of Operations for the Three Months Ended March 31, 1996. Also see "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Senior Note.
8. Reflects annual dividends on the Series A and Series B Preferred Stock.
9. Reflects the elimination of the results of operations of KTVE. The pro forma adjustments exclude an estimated gain of \$5.4 million and estimated income taxes of \$2.8 million from the KTVE Sale.
10. Reflects additional accounting and administrative expenses associated with the Phipps Business.
11. Reflects increased pension expense for the Phipps Business subsequent to the Phipps Acquisition. Historical pension expense for the Phipps Business was a credit of \$449,000 while pension expense for these operations subsequent to the Phipps Acquisition is expected to be an expense of approximately \$130,000.
12. Reflects decreased annual depreciation resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of the Phipps Acquisition.
13. Reflects annual amortization of intangible assets associated with the Phipps Acquisition over a 40-year period.
14. Reflects decreased annual amortization of debt acquisition costs resulting from the retirement of the Old Credit Facility. The pro forma statement of operations for the year ended December 31, 1995 does not include an extraordinary loss relating to deferred financing costs associated with the assumed retirement of the Old Credit Facility. See Pro Forma Statement of Operations for the Three Months Ended March 31, 1996. Also see "The Phipps Acquisition, the KTVE Sale and the Financing--The Financing" with respect to the retirement of the Old Credit Facility.
15. Reflects elimination of the corporate allocation to the Phipps Business. Such amounts will not be incurred by the Company in connection with its

operations of the Phipps Business.

16. Reflects the elimination of interest expense associated with borrowings of the Phipps Business which will not be assumed by the Company.
17. Reflects increased annual interest expense of \$16.7 million on the Notes, which includes annual amortization expense of \$525,000 resulting from the transaction costs relating to the issuance of the Notes, annual interest expense of \$2.9 million relating to additional borrowings of \$32.3 million at an estimated interest rate of 8.96% plus amortization of additional deferred financing costs of \$214,000. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Old Credit Facility.
18. Reflects the elimination of minority interests associated with the Phipps Business, because such minority interests will be acquired as a part of the Phipps Acquisition.
19. Average outstanding shares used to calculate pro forma earnings (loss) per share are based on weighted average common shares outstanding during the period, adjusted for this Offering.

20. If the issuance of Class B Common Stock and retirement of indebtedness to the extent outstanding, had taken place at January 1, 1995, or when issued if later, pro forma net income (historical earnings for the year ended December 31, 1995 adjusted for interest expense in connection with the payment of debt, to the extent outstanding, net of income tax) would have been \$4.5 million, or \$0.56 per share.

21. In connection with the Phipps Acquisition, the Company is seeking FCC approval of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest its ownership interest in WALB and WJHG. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. See "Risk Factors--FCC Divestiture Requirement" and "Business--Federal Regulation of the Company's Business."

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

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

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS  
THREE MONTHS ENDED MARCH 31, 1996  
(IN THOUSANDS EXCEPT PER SHARE DATA)

	HISTORICAL COMPANY	OFFERING	PRO FORMA COMPANY	KTVE SALE(4)	PRO FORMA COMPANY	PHIPPS BUSINESS
STATEMENT OF OPERATIONS DATA:						
Operating revenues:						
Broadcasting (less agency commissions).....	\$11,450	\$ --	\$11,450	\$(1,066)	\$10,384	\$5,208
Publishing.....	5,577	--	5,577	--	5,577	--
Paging.....	--	--	--	--	--	1,338
Total revenues.....	17,027	--	17,027	(1,066)	15,961	6,546
Expenses:						
Broadcasting.....	7,310	--	7,310	(860)	6,450	2,694
Publishing.....	4,808	--	4,808	--	4,808	--
Paging.....	--	--	--	--	--	835
Corporate and administrative.....	776	--	776	--	776	--
Depreciation.....	848	--	848	(110)	738	575
Amortization of intangible assets.....	547	(24)(1)	523	--	523	184
Non-cash compensation paid in common stock.....	60	--	60	--	60	--
Management fee.....	--	--	--	--	--	371
Total expenses.....	14,349	(24)	14,325	(970)	13,355	4,659
Operating income.....	2,678	24	2,702	(96)	2,606	1,887
Miscellaneous income (expense), net.....	63	--	63	(3)	60	11
Income before interest expense, minority interests and income taxes.....	2,741	24	2,765	(99)	2,666	1,898
Interest expense.....	2,157	(1,824)(1)	333	--	333	92
Income (loss) before minority interests and income taxes.....	584	1,848	2,432	(99)	2,333	1,806
Minority interests.....	--	--	--	--	--	80
Income (loss) before income taxes.....	584	1,848	2,432	--	2,333	1,726
Income tax expense (benefit).....	229	744(2)	973	(40)	933	--
Net income (loss).....	355	1,104	1,459	(59)	1,400	1,726
Preferred stock dividends.....	--	350(3)	350	--	350	--
Net income (loss) available to common stockholders.....	\$ 355	\$ 754	\$ 1,109	\$ (59)	\$ 1,050	\$1,726
Average shares outstanding (14).....	4,607		8,107		8,107	
Earnings (loss) per share (15).....	\$ 0.08		\$ 0.14		\$ 0.13	

	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED(16)
STATEMENT OF OPERATIONS DATA:		
Operating revenues:		
Broadcasting (less agency commissions).....	\$ --	\$15,592
Publishing.....	--	5,577
Paging.....	--	1,338
Total revenues.....	--	22,507
Expenses:		
Broadcasting.....	55(5)	9,308
	109(6)	
Publishing.....	--	4,808
Paging.....	36(6)	871
Corporate and administrative.....	--	776
Depreciation.....	(156)(7)	1,157
Amortization of intangible assets.....	884(8)	1,554
	(37)(9)	
Non-cash compensation paid in common stock.....		60
Management fee.....	(371)(10)	--
Total expenses.....	520	18,534
Operating income.....	(520)	3,973
Miscellaneous income (expense), net.....	--	71
Income before interest expense, minority interests and income taxes.....	(520)	4,044
Interest expense.....	(92)(11)	5,272
	4,939(12)	

Income (loss) before minority interests and income taxes.....	(5,367)	(1,228)
Minority interests.....	(80)(13)	--
	-----	-----
Income (loss) before income taxes.....	(5,287)	(1,228)
Income tax expense (benefit).....	(1,351)(1)	(418)
	-----	-----
Net income (loss).....	(3,936)	(810)
Preferred stock dividends.....	--	350
	-----	-----
Net income (loss) available to common stockholders.....	\$ (3,936)	\$(1,160)
	-----	-----
Average shares outstanding (14).....		7,944
		-----
Earnings (loss) per share (15).....		\$ (0.15)
		-----
		-----

The pro forma adjustments to reflect this Offering, the KTVE Sale, the Phipps Acquisition, the Financing and the Concurrent Offering are as follows:

STATEMENT OF OPERATIONS -- THREE MONTHS ENDED MARCH 31, 1996

1. Reflects decreased quarterly amortization of deferred financing costs in connection with retirement of the Senior Note. Also reflects decreased quarterly interest expense of \$955,000 on the Old Credit Facility resulting from repayment from the proceeds of this Offering of \$42.6 million in principal at an estimated rate of 8.96% per annum; decreased quarterly interest expense of \$669,000 resulting from the retirement of the Senior Note; and a reduction of quarterly interest expense of \$200,000 on the 8% Note which will be converted into Series A Preferred Stock. The Pro Forma Statement of Operations for the Three Months Ended March 31, 1996 does not include an extraordinary loss of approximately \$2.8 million (net of estimated income tax benefit of \$1.4 million) relating to deferred financing costs and a prepayment fee associated with the assumed retirement of the Senior Note. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Senior Note.
2. Reflects the adjustment of the income tax provision to the estimated effective tax rate.
3. Reflects quarterly dividends on the Series A and Series B Preferred Stock.
4. Reflects the elimination of the results of operations of KTVE. The pro forma adjustments exclude an estimated gain of \$5.4 million and estimated income taxes of \$2.8 million from the KTVE Sale.
5. Reflects accounting and administrative expenses associated with the Phipps Business.
6. Reflects increased pension expense for the Phipps Business subsequent to the Phipps Acquisition. Historical quarterly pension expense for the Phipps Business was a credit of \$113,000 while pension expense for the Phipps Business subsequent to the Phipps Acquisition is expected to be a quarterly expense of approximately \$32,000.
7. Reflects decreased quarterly depreciation resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of the Phipps Acquisition.
8. Reflects quarterly amortization of intangible assets associated with the Phipps Acquisition over a 40-year period.
9. Reflects decreased quarterly amortization of debt acquisition costs resulting from the retirement of the Old Credit Facility. The pro forma statement of operations for the three months ended March 31, 1996 does not include an extraordinary loss of approximately \$752,000 (net of estimated tax benefit of \$387,000) relating to deferred financing costs associated with the assumed retirement of the Old Credit Facility. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Old Credit Facility.
10. Reflects elimination of the corporate allocation to the Phipps Business. Such amounts will not be incurred by the Company in connection with its operations of the Phipps Business.
11. Reflects the elimination of interest expense associated with the Phipps Business which will not be incurred by the Company.
12. Reflects increased quarterly interest expense of \$4.2 million on the Notes, which includes quarterly amortization expense of \$131,000 resulting from the transaction costs relating to the issuance of the Notes, and increased quarterly interest expense of \$722,000 relating to additional borrowings under the Senior Credit Facility at an estimated interest rate of 8.96% plus amortization of additional deferred financing costs of \$54,000. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Old Credit Facility.



13. Reflects the elimination of minority interests associated with the Phipps Business, because such minority interests will be acquired as part of the Phipps Acquisition.
14. Average outstanding shares used to calculate pro forma earnings (loss) per share are based on weighted average common shares outstanding during the period, adjusted for this Offering.
15. If the net proceeds from the issuance of Class B Common Stock and retirement of indebtedness had taken place at the beginning of the three months ended March 31, 1996, pro forma net income (historical earnings for the three months ended March 31, 1996 adjusted for interest expense in connection with the payment of debt, net of income taxes) would have been \$1.2 million, or \$0.15 per share.
16. In connection with the Phipps Acquisition, the Company is seeking FCC approval of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest its ownership interest in WALB and WJHG. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. See "Risk Factors -- FCC Divestiture Requirement" and "Business -- Federal Regulation of the Company's Business."

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

	THREE MONTHS ENDED MARCH 31, 1996	
	WALB	WJHG
Broadcasting revenues	\$ 2,340	\$ 1,099
Expenses	1,242	949
Operating income	1,098	150
Other income	9	16
Income before income taxes	\$ 1,107	\$ 166
Net income	\$ 686	\$ 103
Media Cash Flow	\$ 1,173	\$ 222

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

TWELVE MONTHS ENDED MARCH 31, 1996  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL		PRO FORMA			PRO FORMA
	COMPANY	AUGUSTA BUSINESS	ADJUSTMENTS FOR AUGUSTA ACQUISITION	PRO FORMA COMPANY	OFFERING	COMPANY
STATEMENT OF OPERATIONS DATA:						
Operating revenues:						
Broadcasting (less agency commissions).....	\$39,850	\$6,763	\$ 169(1)	\$46,782	\$ --	\$46,782
Publishing.....	22,643	--	--	22,643	--	22,643
Paging.....	--	--	--	--	--	--
Total revenues.....	62,493	6,763	169	69,425	--	69,425
Expenses:						
Broadcasting.....	24,922	4,371	169(1)	29,462	--	29,462
Publishing.....	20,863	--	--	20,863	--	20,863
Paging.....	--	--	--	--	--	--
Corporate and administrative.....	2,541	--	--	2,541	--	2,541
Depreciation.....	2,897	204	(39)(2)	3,062	--	3,062
Amortization of intangible assets....	1,579	114	577(3)	2,270	(97)(7)	2,173
Non-cash compensation paid in common stock.....	2,145	--	--	2,145	--	2,145
Management fee.....	--	--	--	--	--	--
Total expenses.....	54,947	4,689	707	60,343	(97)	60,246
Operating income.....	7,546	2,074	(538)	9,082	97	9,179
Miscellaneous income (expense), net....	164	(208)	114(4)	70	--	70
Income before interest expense, minority interests and income taxes.....	7,710	1,866	(424)	9,152	97	9,249
Interest expense.....	6,219	--	2,535(5)	8,754	(7,296) (7)	1,458
Income (loss) before minority interests and income taxes.....	1,491	1,866	(2,959)	398	7,393	7,791
Minority interests.....	--	--	--	--	--	--
Income (loss) before income taxes.....	1,491	1,866	(2,959)	398	7,393	7,791
Income tax expense (benefit).....	609	--	(442) (6)	167	2,957(6)	3,124
Net income (loss).....	882	1,866	(2,517)	231	4,436	4,667
Preferred stock dividends.....	--	--	--	--	1,400(8)	1,400
Net income (loss) available to common stockholders.....	\$ 882	\$1,866	\$(2,517)	\$ 231	\$ 3,036	\$ 3,267
Average shares outstanding (19).....	4,549			4,567		8,067
Earnings (loss) per share (20).....	\$ 0.19			\$ 0.05		\$ 0.41

	KTVE SALE(9)	PRO FORMA COMPANY	PHIPPS BUSINESS	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED(21)
STATEMENT OF OPERATIONS DATA:					
Operating revenues:					
Broadcasting (less agency commissions).....	\$(4,335)	\$42,447	\$22,840	\$ --	\$65,287
Publishing.....	--	22,643	--	--	22,643
Paging.....	--	--	4,998	--	4,998
Total revenues.....	(4,335)	65,090	27,838	--	92,928
Expenses:					
Broadcasting.....	(3,384)	26,078	10,731	220(10) 436(11)	37,465
Publishing.....	--	20,863	--	--	20,863
Paging.....	--	--	3,192	143(11)	3,335
Corporate and administrative.....	--	2,541	--	--	2,541
Depreciation.....	(444)	2,618	2,444	(625)(12)	4,437
Amortization of intangible assets....	--	2,173	735	3,519(13) (166)(14)	6,261
Non-cash compensation paid in common stock.....	--	2,145	--	--	2,145
Management fee.....	--	--	2,882	(2,882)(15)	--
Total expenses.....	(3,828)	56,418	19,984	645	77,047
Operating income.....	(507)	8,672	7,854	(645)	15,881
Miscellaneous income (expense), net....	(27)	43	19	--	62
Income before interest expense, minority interests and income taxes.....	(534)	8,715	7,873	(645)	15,943

Interest expense.....	--	1,458	477	(477)(16) 19,755(17)	21,213
-----					
Income (loss) before minority interests and income taxes.....	(534)	7,257	7,396	(19,923)	(5,270)
Minority interests.....	--	--	569	(569)(18)	--
-----					
Income (loss) before income taxes.....	(534)	7,257	6,827	(19,354)	(5,270)
Income tax expense (benefit).....	(213)	2,910	--	(4,696)(6)	(1,786)
-----					
Net income (loss).....	(321)	4,347	6,827	(14,658)	(3,484)
Preferred stock dividends.....	--	1,400	--	--	1,400
-----					
Net income (loss) available to common stockholders.....	\$ (321)	\$ 2,947	\$6,827	\$(14,658)	\$(4,884)
-----					
Average shares outstanding (19).....		8,067			7,899
-----					
Earnings (loss) per share (20).....		\$ 0.37			\$ (0.62)
-----					

The pro forma adjustments to reflect this Offering, the KTVE Sale, the Phipps Acquisition, the Financing and the Concurrent Offering are as follows:

STATEMENT OF OPERATIONS -- TWELVE MONTHS ENDED MARCH 31, 1996

1. Reflects the classification of national sales representative commissions as an expense consistent with the presentation by the Company.
2. Reflects decreased depreciation prior to acquisition resulting from the change in asset lives in connection with the preliminary allocation of the Augusta Acquisition purchase price to the newly acquired property and equipment, at fair market value, for the nine months ended December 31, 1995.
3. Reflects amortization prior to acquisition of \$81,000 on the Augusta Business financing costs over a seven-year period. Also reflects the amortization prior to acquisition of \$610,000 on the intangible assets associated with the Augusta Acquisition over a 40-year period.
4. Reflects the elimination of overhead allocated to the Augusta Business prior to acquisition by its previous owner which will not be incurred by the Company.
5. Reflects increased interest expense prior to the acquisition of the Augusta Business of \$116,000 for an interest rate adjustment on the Senior Note; increased interest expense prior to the acquisition of the Augusta Business of \$1.8 million on the Old Credit Facility at LIBOR plus 3.5%, based on an increase in the debt level subsequent to the Augusta Acquisition; and interest expense prior to the acquisition of the Augusta Business of \$600,000 on the 8% Note.
6. Reflects the adjustment of the income tax provision to the estimated effective tax rate.
7. Reflects decreased annual amortization of deferred financing costs in connection with retirement of the Senior Note. Also reflects decreased annual interest expense of \$3.8 million on the Old Credit Facility resulting from repayment of \$42.6 million in principal at an estimated rate of 8.96% per annum from the proceeds of this Offering; decreased annual interest expense of \$2.7 million resulting from the retirement of the Senior Note; and a reduction of annual interest expense of \$800,000 on the 8% Note which will be converted to Series A Preferred Stock. The Pro Forma Statement of Operations for the Twelve Months Ended March 31, 1996 does not include an extraordinary loss of approximately \$2.8 million (net of estimated income tax benefit of \$1.4 million) relating to deferred financing costs and a prepayment fee associated with the assumed retirement of the Senior Note. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Senior Note.
8. Reflects annual dividends on the Series A and Series B Preferred Stock.
9. Reflects the elimination of the results of operations of KTVE. The pro forma adjustments exclude an estimated gain of \$5.4 million and estimated income taxes of \$2.8 million from the KTVE Sale.
10. Reflects accounting and administrative expenses associated with the Phipps Business.
11. Reflects increased pension expense for the Phipps Business subsequent to the Phipps Acquisition. Historical pension expense for the Phipps Business was a credit of \$449,000 while pension expense for these operations subsequent to the Phipps Acquisition is expected to be an expense of approximately \$130,000.
12. Reflects decreased annual depreciation resulting from the change in asset lives in connection with the newly acquired property and equipment (at fair market value) of the Phipps Acquisition.

13. Reflects annual amortization of intangible assets associated with the Phipps Acquisition over a 40-year period.
14. Reflects decreased annual amortization of debt acquisition costs resulting from the retirement of the Old Credit Facility at March 31, 1996. The Pro Forma Statement of Operations for the Twelve Months Ended March 31, 1996 does not include an extraordinary loss of approximately \$752,000 (net of estimated tax benefit of \$387,000) relating to deferred financing costs associated with the assumed retirement of the Old Credit Facility. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Old Credit Facility.
15. Reflects elimination of the corporate allocation to the Phipps Business. Such amounts will not be incurred by the Company in connection with its operations of the Phipps Business.
16. Reflects the elimination of interest expense associated with the Phipps Business which will not be assumed by the Company.
17. Reflects increased annual interest expense of \$16.7 million on the Notes, which includes annual amortization expense of \$525,000 resulting from the transaction costs relating to the issuance of the Notes, annual interest expense of \$2.9 million relating to the additional borrowings under the Senior Credit Facility at an estimated interest rate of 8.96% plus amortization of additional deferred financing costs of \$214,000. See "The Phipps Acquisition, the KTVE Sale and the Financing -- The Financing" with respect to the retirement of the Old Credit Facility.
18. Reflects the elimination of minority interests associated with the Phipps Business, because such minority interests will be acquired as a part of the Phipps Acquisition.
19. Average outstanding shares used to calculate pro forma earnings (loss) per share are based on weighted average common shares outstanding during the period, adjusted for this Offering.

20. If the net proceeds from the issuance of Class B Common Stock and retirement of indebtedness had taken place at the beginning of the 12 months ended March 31, 1996 or when issued if later, pro forma net income (historical earnings for the twelve months ended March 31, 1996 adjusted for interest expense in connection with the payment of debt, to the extent outstanding, net of income taxes) would have been \$4.2 million, or \$0.53 per share.
21. In connection with the Phipps Acquisition, the Company is seeking FCC approval of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest its ownership interest in WALB and WJHG. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. See "Risk Factors -- FCC Divestiture Requirement" and "Business -- Federal Regulation of the Company's Business."

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

	TWELVE MONTHS ENDED MARCH 31, 1996	
	WALB	WJHG
Broadcasting revenues.....	\$ 9,603	\$ 4,091
Expenses.....	4,702	3,719
Operating income.....	4,901	372
Other income.....	20	61
Income before income taxes.....	\$ 4,921	\$ 433
Net income.....	\$ 3,049	\$ 269
Media Cash Flow.....	\$ 5,221	\$ 663

## UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

MARCH 31, 1996  
(IN THOUSANDS)

	HISTORICAL COMPANY	OFFERING	PRO FORMA COMPANY	KTVE SALE(4)	PRO FORMA COMPANY	PHIPPS BUSINESS
<b>ASSETS:</b>						
Cash.....	\$2,082	\$--	\$2,082	\$9,500	\$11,582	\$187
Trade accounts receivable.....	10,145	--	10,145	--	10,145	4,611
Recoverable income taxes.....	957	1,428(1)	2,385	(2,385)	--	--
Inventories.....	232	--	232	--	232	--
Current portion of program broadcast rights.....	1,327	--	1,327	(130)	1,197	927
Prepaid expenses and other current assets.....	651	--	651	(72)	579	266
<b>Total current assets.....</b>	<b>15,394</b>	<b>1,428</b>	<b>16,822</b>	<b>6,913</b>	<b>23,735</b>	<b>5,991</b>
Property and equipment-net.....	19,098	--	19,098	(1,638)	17,460	10,156
Other assets						
Deferred acquisition costs.....	1,951	--	1,951	--	1,951	--
Deferred loan costs.....	1,939	(800)(1)	1,139	--	1,139	--
Goodwill and other intangibles.....	73,939	--	73,939	(2,322)	71,617	9,279
Other.....	1,196	--	1,196	(14)	1,182	343
<b>Total other assets.....</b>	<b>79,025</b>	<b>(800)</b>	<b>78,225</b>	<b>(2,336)</b>	<b>75,889</b>	<b>9,622</b>
<b>Total assets.....</b>	<b>\$113,517</b>	<b>\$628</b>	<b>\$114,145</b>	<b>\$2,939</b>	<b>\$117,084</b>	<b>\$25,769</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>						
Trade accounts payable.....	\$3,373	\$--	\$3,373	\$--	\$3,373	\$461
Employee compensation and benefits.....	4,383	--	4,383	--	4,383	--
Accrued expenses.....	459	--	459	--	459	856
Accrued interest.....	1,384	--	1,384	--	1,384	--
Income taxes payable.....	--	--	--	423	423	--
Current portion of broadcast program obligations.....	1,223	--	1,223	(129)	1,094	805
Deferred paging service income.....	--	--	--	--	--	909
Current portion of long-term debt.....	1,516	--	1,516	--	1,516	1,432
<b>Total current liabilities.....</b>	<b>12,338</b>	<b>--</b>	<b>12,338</b>	<b>294</b>	<b>12,632</b>	<b>4,463</b>
Long-term debt.....	86,924	(10,000)(2)	9,274	--	9,274	2,639
		(67,650)(3)				
Deferred credits.....	4,536	--	4,536	(3)	4,533	214
Minority interests.....	--	--	--	--	--	438
Stockholders' equity						
Series A Preferred Stock.....	--	10,000(2)	10,000	--	10,000	--
Series B Preferred Stock.....	--	10,000(2)	10,000	--	10,000	--
Class A Common Stock, no par value.....	7,263	--	7,263	--	7,263	--
Class B Common Stock, no par value.....	--	61,050(2)	61,050	--	61,050	--
Retained earnings.....	9,094	(2,772)(1)	6,322	2,648	8,970	--
Net equity of acquired operations.....	--	--	--	--	--	18,015
<b>Treasury stock.....</b>	<b>16,357</b>	<b>78,278</b>	<b>94,635</b>	<b>2,648</b>	<b>97,283</b>	<b>18,015</b>
	(6,638)	--	(6,638)	--	(6,638)	--
<b>Total liabilities and stockholders' equity.....</b>	<b>\$113,517</b>	<b>\$628</b>	<b>\$114,115</b>	<b>\$2,939</b>	<b>\$117,084</b>	<b>\$25,769</b>

	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED(10)
<b>ASSETS:</b>		
Cash.....	\$(185,000)(5)	\$2,082
	144,750(7)	
	30,750(8)	
	(187)(6)	
Trade accounts receivable.....	--	14,756
Recoverable income taxes.....	--	--
Inventories.....	--	232
Current portion of program broadcast rights.....	--	2,124
Prepaid expenses and other current assets.....	(266)(6)	579
<b>Total current assets.....</b>	<b>(9,953)</b>	<b>19,773</b>
Property and equipment-net.....	--	27,616
Other assets		
Deferred acquisition costs.....	--	1,951
Deferred loan costs.....	5,250(7)	6,750
	1,500(8)	
	(1,139)(9)	
Goodwill and other intangibles.....	(9,279)(6)	242,508
	170,891(5)	
Other.....	--	1,525

Total other assets.....	167,223	252,734
Total assets.....	\$157,270	\$300,123
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Trade accounts payable.....	\$(461)(6)	\$3,373
Employee compensation and benefits.....	--	4,383
Accrued expenses.....	(856)(6)	459
Accrued interest.....	--	1,384
Income taxes payable.....	(387)(9)	36
Current portion of broadcast program obligations.....	--	1,899
Deferred paging service income.....	--	909
Current portion of long-term debt.....	(1,432)(6)	1,516
Total current liabilities.....	(3,136)	13,959
Long-term debt.....	(2,639)(6)	191,524
	32,250(8)	
	150,000(7)	
Deferred credits.....	--	4,747
Minority interests.....	(438)(6)	--
Stockholders' equity		
Series A Preferred Stock.....	--	10,000
Series B Preferred Stock.....	--	10,000
Class A Common Stock, no par value.....	--	7,263
Class B Common Stock, no par value.....	--	61,050
Retained earnings.....	(752)(9)	8,218
Net equity of acquired operations.....	(18,015)(5)	--
Treasury stock.....	(18,767)	96,531
	--	(6,638)
	(18,767)	89,893
Total liabilities and stockholders' equity.....	\$157,270	\$300,123



The pro forma adjustments to reflect this Offering, the KTVE Sale, the Phipps Acquisition, the Financing and the Concurrent Offering are as follows:

BALANCE SHEET - MARCH 31, 1996

1. Reflects the prepayment fee associated with the retirement of the Senior Note, the write-off of deferred loan costs in connection with the retirement of the Senior Note and the income tax benefit associated with the prepayment fee and write-off of deferred loan costs.
2. Reflects the issuances, net of fees and expenses, of (i) approximately 3,500,000 shares of Class B Common Stock at an estimated \$19 per share pursuant to this Offering, (ii) Series A Preferred Stock in exchange for the 8% Note and (iii) \$10.0 million of Series B Preferred Stock to certain affiliates of the Company.
3. Reflects retirement of \$25.0 million in aggregate principal amount and a prepayment fee of \$3.4 million on the Senior Note and a retirement of \$42.6 million on the Old Credit Facility with the net proceeds from this Offering and the sale of Series B Preferred Stock of \$71.0 million.
4. Reflects the proposed KTVE Sale for \$9.5 million plus the amount of the accounts receivable on the date of the closing. The transaction is subject to regulatory approval and is expected to close by September 1996, although there can be no assurance with respect thereto. See "Risk Factors--Possible Non-Consummation of the KTVE Sale."
5. Reflects the purchase of the Phipps Business and a preliminary allocation of the purchase price of \$185.0 million to the tangible assets and liabilities based upon estimates of fair market value at March 31, 1996 as follows:

Trade accounts receivable.....	\$ 4,611
Current portion of program broadcast rights.....	927
Property and equipment.....	10,156
Goodwill and other intangibles.....	170,891
Other.....	343
Current portion of program broadcast obligations.....	(805)
Deferred paging service income.....	(909)
Deferred credits.....	(214)
	-----
Purchase price of Phipps Business including expenses.....	\$ 185,000
	-----
	-----
Historical book value of Phipps Business.....	\$ (18,015)
Assets not acquired and liabilities not assumed--net.....	3,906
	-----
Net assets acquired.....	(14,109)
Purchase price of Phipps Business.....	185,000
	-----
Goodwill and other intangibles.....	\$ 170,891
	-----
	-----

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

6. Reflects the elimination of certain of the assets and liabilities of the Phipps Business, which were not included in the Phipps Acquisition.
7. Reflects the issuance of the Notes pursuant to the Concurrent Offering and fees and expenses associated with the Concurrent Offering.
8. Reflects borrowings of \$32.3 million under the Senior Credit Facility in order to complete the Phipps Acquisition and estimated expenses of \$1.5 million in connection with the negotiation and execution of the Senior Credit Facility. See "Description of Certain Indebtedness -- Senior Credit Facility."

9. Reflects the write-off of debt acquisition costs and related tax benefit resulting from the retirement of the Old Credit Facility at March 31, 1996.

10. In connection with the Phipps Acquisition, the Company is seeking FCC approval of the assignment of the television broadcast licenses for WCTV and WKXT. Current FCC regulations will require the Company to divest its ownership interest in WALB and WJHG. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. See "Risk Factors--FCC Divestiture Requirement" and "Business--Federal Regulation of the Company's Business."

Condensed balance sheets of WALB and WJHG are as follows:

	MARCH 31, 1996	
	WALB	WJHG
Current assets	\$ 1,667	\$ 855
Property and equipment	1,769	1,078
Other assets	76	3
Total assets	\$ 3,512	\$ 1,936
Current liabilities	\$ 1,127	\$ 428
Other liabilities	228	--
Stockholder's equity	2,157	1,508
Total liabilities and stockholder's equity	\$ 3,512	\$ 1,936

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

SELECTED FINANCIAL DATA OF THE COMPANY

Set forth below are certain selected historical consolidated financial data of the Company. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations of the Company." The selected consolidated financial data for, and as of the end of, each of the years in the four-year period ended December 31, 1995 are derived from the audited consolidated financial statements of the Company. The selected consolidated financial data for, and as of the year ended December 31, 1991 are derived from unaudited financial statements, since the Company had a June 30 fiscal year end. The selected consolidated financial data for, and as of the three months ended March 31, 1995 and 1996 are derived from the unaudited consolidated financial statements of the Company and have been prepared on the same basis as the audited consolidated financial statements and in the opinion of the management of the Company include all normal and recurring adjustments and accruals necessary for a fair presentation of such information.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,
	1991	1992	1993	1994	1995	1995
	-----					-----
	(UNAUDITED)					(UNAUDITED)
STATEMENT OF INCOME DATA:						
Operating revenues:						
Broadcasting (less agency commissions).....	\$ 13,553	\$ 15,131	\$ 15,004	\$ 22,826	\$ 36,750	\$ 8,350
Publishing.....	8,968	9,512	10,109	13,692	21,866	4,800
	-----					-----
Total revenues.....	22,521	24,643	25,113	36,518	58,616	13,150
Expenses:						
Broadcasting.....	9,672	9,753	10,029	14,864	23,202	5,590
Publishing.....	6,444	6,752	7,662	11,198	20,016	3,961
Corporate and administrative.....	1,889	2,627	2,326	1,959	2,258	493
Depreciation.....	1,487	1,197	1,388	1,745	2,633	585
Amortization of intangible assets.....	14	44	177	396	1,326	294
Non-cash compensation paid in common stock.....	--	--	--	80	2,321	236
	-----					-----
Total expenses.....	19,506	20,373	21,582	30,242	51,756	11,159
	-----					-----
Operating income.....	3,015	4,270	3,531	6,276	6,860	1,991
	-----					-----
Miscellaneous income (expense), net.....	778	(1,519)	202	189	143	43
	-----					-----
Income from continuing operations before interest expense and income taxes.....	3,793	2,751	3,733	6,465	7,003	2,034
Interest expense.....	787	1,486	985	1,923	5,438	1,376
	-----					-----
Income from continuing operations before income taxes.....	3,006	1,265	2,748	4,542	1,565	658
Federal and state income taxes.....	1,156	869	1,068	1,776	634	254
	-----					-----
Income from continuing operations.....	1,850	396	1,680	2,766	931	404
Discontinued business:						
Income (loss) from operations of discontinued business, net of applicable income tax expense (benefit) of (\$55), (\$79) and \$30, respectively.....	(90)	(129)	48	--	--	--
Gain on disposal of discontinued business, net of applicable income tax expense of \$501.....	--	--	818	--	--	--
	-----					-----
Net income.....	\$ 1,760	\$ 267	\$ 2,546	\$ 2,766	\$ 931	\$ 404
	-----					-----
Average outstanding common shares.....	6,469	4,668	4,611	4,689	4,481	4,308
	-----					-----
Income from continuing operations per common share.....	\$ 0.29	\$ 0.09	\$ 0.36	\$ 0.59	\$ 0.21	\$ 0.09
	-----					-----
Cash dividends per common share.....	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.08	\$ 0.02
	-----					-----
	-----					-----
	1996					
	-----					
STATEMENT OF INCOME DATA:						
Operating revenues:						
Broadcasting (less agency commissions).....	\$ 11,450					
Publishing.....	5,577					

Total revenues.....	17,027
Expenses:	
Broadcasting.....	7,310
Publishing.....	4,808
Corporate and administrative.....	776
Depreciation.....	848
Amortization of intangible assets.....	547
Non-cash compensation paid in common stock.....	60
Total expenses.....	14,349
Operating income.....	2,678
Miscellaneous income (expense), net.....	63
Income from continuing operations before interest expense and income taxes.....	2,741
Interest expense.....	2,157
Income from continuing operations before income taxes.....	584
Federal and state income taxes.....	229
Income from continuing operations.....	355
Discontinued business:	
Income (loss) from operations of discontinued business, net of applicable income tax expense (benefit) of (\$55), (\$79) and \$30, respectively.....	--
Gain on disposal of discontinued business, net of applicable income tax expense of \$501.....	--
Net income.....	\$ 355
Average outstanding common shares.....	4,607
Income from continuing operations per common share.....	\$ 0.08
Cash dividends per common share.....	\$ 0.02

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,
	1991	1992	1993	1994	1995	1995
	(UNAUDITED)					(UNAUDITED)
<b>BALANCE SHEET DATA (AT END OF PERIOD):</b>						
Working capital (deficiency).....	\$ 6,740	\$ 2,976	\$ 2,579	\$ 1,075	\$ (221)	\$ 177
Total assets.....	31,548	24,173	21,372	68,789	78,240	71,094
Total debt.....	20,378	12,412	7,759	52,940	54,325	53,606
Total stockholders' equity.....	\$ 5,853	\$ 4,850	\$ 7,118	\$ 5,001	\$ 8,986	\$ 6,067
<b>OTHER DATA:</b>						
Media Cash Flow (1).....	\$ 6,405	\$ 8,079	\$ 7,371	\$ 10,522	\$ 15,559	\$ 3,585
Operating cash flow (2).....	4,516	5,452	5,044	8,567	13,309	3,097
EBITDA (3).....	4,516	5,512	5,095	8,498	13,140	3,106
Cash flows provided by (used in):						
Operating activities.....	3,499	4,832	1,324	5,798	7,600	1,520
Investing activities.....	(2,073)	(1,041)	3,062	(42,770)	(8,929)	(2,369)
Financing activities.....	(10,424)	(9,300)	(4,932)	37,200	1,331	582
Capital expenditures.....	\$ 2,235	\$ 2,216	\$ 2,582	\$ 1,768	\$ 3,280	\$ 973
Ratio of Media Cash Flow to interest expense.....	8.1	5.4	7.5	5.5	2.9	2.6
Ratio of operating cash flow to interest expense.....	5.7	3.7	5.1	4.5	2.4	2.2
Ratio of total debt to Media Cash Flow.....	3.2	1.5	1.1	5.0	3.5	4.2(5)
Ratio of total debt to operating cash flow.....	4.5	2.3	1.5	6.2	4.1	5.1(5)
Ratio of earnings to fixed charges (4).....	4.7	1.8	3.4	3.1	1.3	1.5

1996

<b>BALANCE SHEET DATA (AT END OF PERIOD):</b>	
Working capital (deficiency).....	\$ 3,056
Total assets.....	113,517
Total debt.....	88,440
Total stockholders' equity.....	\$ 9,719
<b>OTHER DATA:</b>	
Media Cash Flow (1).....	\$ 4,965
Operating cash flow (2).....	4,197
EBITDA (3).....	4,133
Cash flows provided by (used in):	
Operating activities.....	3,119
Investing activities.....	(36,013)
Financing activities.....	34,416
Capital expenditures.....	\$ 814
Ratio of Media Cash Flow to interest expense.....	2.3
Ratio of operating cash flow to interest expense.....	1.9
Ratio of total debt to Media Cash Flow.....	5.2(5)
Ratio of total debt to operating cash flow.....	6.1(5)
Ratio of earnings to fixed charges (4).....	1.3

- (1) Media Cash Flow represents operating income plus depreciation and amortization (including amortization of program license rights), non-cash compensation and corporate overhead, less payments of program license liabilities.
- (2) Operating cash flow represents operating income plus depreciation, amortization (including amortization of program license rights) and non-cash compensation, less payments for program license liabilities.
- (3) EBITDA represents operating income plus (i) depreciation and amortization (excluding amortization of program license rights) and (ii) non-cash compensation paid in common stock (excluding stock payments made to the 401(k) plan). EBITDA is presented not as a measure of operating results, but rather to provide additional information related to the Company's ability to service debt. EBITDA should not be considered as an alternative to either (x) operating income determined in accordance with GAAP as an indicator of operating performance or (y) cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity.
- (4) For purposes of this item, "fixed charges" represent interest, the interest element of rental expense, capitalized interest and amortization of debt issuance costs and "earnings" represent net income (loss) before income taxes, discontinued operations, extraordinary items, cumulative effect of change in accounting principles and fixed charges.
- (5) Represents applicable ratios for the 12 month periods ended March 31, 1995 and 1996.

SELECTED FINANCIAL DATA OF THE PHIPPS BUSINESS

Set forth below are certain selected historical financial data of the Phipps Business. This information should be read in conjunction with the financial statements of the Phipps Business and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations of the Phipps Business." The selected historical financial data for, and as of the end of, each of the years in the three-year period ended December 31, 1995 are derived from the audited financial statements of the Phipps Business. The selected financial data for, and as of the end of, each of the years ended December 31, 1991 and 1992 are derived from the unaudited accounting records of the Phipps Business. The selected financial data for, and as of the three months ended March 31, 1995 and 1996 are derived from the unaudited financial statements of the Phipps Business and have been prepared on the same basis as the audited financial statements and in the opinion of management of the Phipps Business include all normal and recurring adjustments and accruals necessary for a fair presentation of such information.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1991	1992(1)	1993	1994	1995	1995	1996
	(UNAUDITED)					(UNAUDITED)	
<b>STATEMENT OF INCOME DATA:</b>							
Operating revenues:							
Broadcasting (less agency commissions).....	\$ 10,492	\$ 14,523	\$ 19,460	\$ 21,524	\$ 22,424	\$ 4,801	\$ 5,208
Paging.....	3,369	3,646	3,788	4,277	4,897	1,238	1,338
Total revenues.....	13,861	18,169	23,248	25,801	27,321	6,039	6,546
Expenses:							
Broadcasting.....	5,298	7,518	10,734	10,211	10,487	2,451	2,694
Paging.....	2,356	2,298	2,529	2,764	3,052	695	835
Management fees.....	579	973	2,462	2,486	3,280	769	371
Depreciation and amortization.....	1,513	1,734	2,836	2,672	3,120	700	759
Total expenses.....	9,746	12,523	18,561	18,133	19,939	4,615	4,659
Operating income.....	4,115	5,646	4,687	7,668	7,382	1,424	1,887
Miscellaneous income (expense), net.....	5	8	16	666	12	(4)	11
Income before interest expense and minority interests.....	4,120	5,654	4,703	8,334	7,394	1,420	1,898
Interest expense.....	162	442	632	480	499	114	92
Income before minority interests.....	3,958	5,212	4,071	7,854	6,895	1,306	1,806
Minority interests.....	--	331	140	635	547	58	80
Net income.....	\$ 3,958	\$ 4,881	\$ 3,931	\$ 7,219	\$ 6,348	\$ 1,248	\$ 1,726
Supplemental unaudited pro forma information: (2)							
Net income, as above.....	\$ 3,958	\$ 4,881	\$ 3,931	\$ 7,219	\$ 6,348	\$ 1,248	\$ 1,726
Pro forma provision for income tax expense.....	1,504	1,855	1,500	2,743	2,413	474	656
Pro forma net income.....	\$ 2,454	\$ 3,026	\$ 2,431	\$ 4,476	\$ 3,935	\$ 774	\$ 1,070
<b>BALANCE SHEET DATA (AT END OF PERIOD):</b>							
Working capital.....	\$ 595	\$ 615	\$ 1,127	\$ 1,421	\$ 2,622	\$ 1,308	\$ 1,528
Total assets.....	8,931	25,068	24,819	25,298	27,562	25,626	25,769
Total debt.....	1,388	7,697	6,542	6,065	4,810	5,731	4,071
Minority interests.....	--	1,154	824	728	586	671	438
Owner's equity.....	\$ 6,351	\$ 13,276	\$ 14,306	\$ 15,465	\$ 18,794	\$ 16,071	\$ 18,015

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
OTHER DATA:					
Media Cash Flow (3).....	\$ 10,466	\$ 12,983	\$ 13,696	\$ 2,867	\$ 3,001
Operating cash flow (4).....	8,003	10,498	10,416	2,097	2,629
EBITDA (5).....	7,523	10,340	10,502	2,115	2,646
Net cash flows provided by (used in):					
Operating activities.....	7,397	9,808	9,259	2,094	3,337
Investing activities.....	(2,953)	(2,506)	(3,828)	(965)	(295)
Financing activities.....	(4,418)	(7,233)	(4,906)	(1,092)	(3,476)
Capital expenditures.....	\$ 3,538	\$ 3,353	\$ 3,188	\$ 1,239	\$ 710

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

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

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

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

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



MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS OF THE COMPANY

INTRODUCTION

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

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

	YEAR ENDED DECEMBER 31,						THREE MONTHS ENDED MARCH 31,			
	1993		1994		1995		1995		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
<b>TELEVISION BROADCASTING</b>										
Revenues.....	\$15,003.7	59.8%	\$22,826.4	62.5%	\$36,750.0	62.7%	\$ 8,349.7	63.5%	\$11,449.6	67.2%
Operating income (1)....	4,070.6	66.9	6,556.0	78.4	10,585.2	94.1	2,067.4	77.4	3,127.4	88.6
<b>PUBLISHING</b>										
Revenues.....	\$10,109.4	40.2%	\$13,692.0	37.5%	\$21,866.2	37.3%	\$ 4,800.6	36.5%	\$ 5,576.9	32.8%
Operating income (1)....	2,009.1	33.1	1,804.0	21.6	660.2	5.9	603.9	22.6	401.3	11.4

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

TELEVISION BROADCASTING

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

	YEAR ENDED DECEMBER 31,						THREE MONTHS ENDED MARCH 31,			
	1993		1994		1995		1995		1996	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
<b>Net revenues:</b>										
Local.....	\$ 7,312.3	29.2%	\$12,191.4	33.4%	\$20,888.1	35.6%	\$ 4,964.4	37.7%	\$ 6,675.4	39.2%
National.....	6,102.8	24.3	7,804.4	21.4	10,881.1	18.6	2,470.0	18.9	3,089.3	18.1
Network compensation...	1,286.1	5.1	1,297.5	3.5	2,486.8	4.2	595.7	4.5	866.6	5.1
Political....	17.7	0.1	1,029.0	2.8	1,174.2	2.0	25.4	0.2	212.9	1.2
Production and other...	284.8	1.1	504.1	1.4	1,319.8	2.3	294.2	2.2	605.4	3.6
	\$15,003.7	59.8%	\$22,826.4	62.5%	\$36,750.0	62.7%	\$ 8,349.7	63.5%	\$11,449.6	67.2%

In the Company's broadcasting operations, broadcast advertising is sold for placement either preceding or following a television stations' network programming and within local and syndicated programming.



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

Most broadcast advertising contracts are short-term, and generally run only for a few weeks. The Company estimates that approximately 56.5% and 57.6%, respectively, of the gross revenues of the Company's television stations for the year ended December 31, 1995 and the three months ended March 31, 1996, were generated from local advertising, which is sold by a station's sales staff directly to local accounts, and the remainder represents national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising.

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

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

#### PUBLISHING

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

	YEAR ENDED DECEMBER 31,						THREE MONTHS ENDED MARCH 31,			
	1993		1994		1995		1995		1996	
	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES	AMOUNT	PERCENT OF TOTAL COMPANY REVENUES
(DOLLARS IN THOUSANDS)										
Revenues:										
Retail										
advertising...	\$ 5,734.3	22.8%	\$ 7,460.3	20.4%	\$11,044.2	18.8%	\$ 2,443.7	18.6%	\$ 2,607.6	15.3%
Classified...	2,336.5	9.3	3,174.2	8.7	5,323.8	9.1	1,175.4	8.9	1,482.2	8.7
Circulation...	2,011.8	8.0	2,628.9	7.2	3,783.8	6.5	928.3	7.1	1,114.9	6.6
Other.....	26.8	0.1	428.6	1.2	1,714.4	2.9	253.2	1.9	372.2	7.2
	\$10,109.4	40.2%	\$13,692.0	37.5%	\$21,866.2	37.3%	\$ 4,800.6	36.5%	\$ 5,576.9	32.8%

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

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

MEDIA CASH FLOW

The following table sets forth certain operating data for both the broadcast and publishing operations for the years ended December 31, 1993, 1994 and 1995, and the three months ended March 31, 1995 and 1996.

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
Operating income.....	\$3,530.7	\$ 6,276.4	\$ 6,859.7	\$1,991.1	\$2,677.8
Add:					
Amortization of program license rights.....	924.9	1,218.0	1,647.0	401.8	646.8
Depreciation and amortization...	1,564.8	2,141.6	3,958.9	878.7	1,395.3
Corporate overhead.....	2,326.7	1,958.4	2,258.3	493.0	775.6
Non-cash compensation and contributions to the Company's 401(k) plan, paid in common stock.....	-	109.5	2,612.2	301.4	131.5
Less:					
Payments for program license liabilities...	(976.2)	(1,181.6)	(1,776.8)	(481.3)	(661.6)
Media Cash Flow (1).....	\$7,370.9	\$10,522.3	\$15,559.3	\$3,584.7	\$4,965.4

(1) Of Media Cash Flow, \$4.9 million, \$8.0 million and \$13.6 million was attributable to the Company's broadcasting operations in 1993, 1994 and 1995, respectively; and \$2.7 million and \$4.2 million was attributable to the Company's broadcasting operations during the three months ended March 31, 1995 and 1996, respectively.

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

ACQUISITIONS

Since 1994, the Company has completed several broadcasting and publishing acquisitions. The operating results of the Company reflect significant increases in substantially all line items between the three months ended March 31, 1995 and 1996, and the years ended December 31, 1994 and 1995. The principal reason for these increases is the acquisition by the Company in January 1996 of the Augusta Business for \$35.9 million and the assumption of \$1.3 million of liabilities, and in September 1994 of WKYT and WYMT (together, the "Kentucky Business") for \$38.1 million and the assumption of \$2.3 million of liabilities (the "Kentucky Acquisition"). In addition, during 1994 the Company acquired THE ROCKDALE CITIZEN for approximately \$4.8 million (May 1994) and four shoppers for approximately \$1.5 million (October 1994) (collectively the "1994 Publishing Acquisitions"), and during 1995 the Company acquired the GWINNETT DAILY POST for approximately \$3.7 million (January 1995) and three shoppers for an aggregate purchase price of approximately \$1.4 million (September 1995) (collectively the "1995 Publishing Acquisitions"). The 1994 Publishing Acquisitions and the 1995 Publishing Acquisitions are collectively referred to as the "Publishing Acquisitions."



CASH FLOW PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES.

The following table sets forth certain operating data for the Company for the years ended December 31, 1993, 1994 and 1995 and for the three months ended March 31, 1995 and 1996.

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
	-----	-----	-----	-----	-----
Cash flows provided by (used in):					
Operating activities.....	\$1,324	\$5,798	\$7,600	\$1,520	\$3,119
Investing activities.....	3,062	(42,770)	(8,929)	(2,369)	(36,013)
Financing activities.....	(4,932)	37,200	1,331	582	34,416

THREE MONTHS ENDED MARCH 31, 1996 COMPARED TO THREE MONTHS ENDED MARCH 31, 1995

REVENUES. Total revenues for the three months ended March 31, 1996 increased \$3.9 million, or 29.5%, over the three months ended March 31, 1995, from \$13.1 million to \$17.0 million. This increase was attributable to (i) the Augusta Acquisition, which occurred on January 4, 1996 and (ii) increases in publishing and broadcasting (excluding the Augusta Acquisition) revenues. The Augusta Acquisition accounted for \$2.1 million, or 53.6%, of the revenue increase. Broadcast net revenues increased \$3.1 million, or 37.1%, over the same period of the prior year, from \$8.3 million to \$11.4 million. Revenues generated by the Augusta Acquisition accounted for \$2.1 million, or 67.1%, of the increase. On a pro forma basis, broadcast net revenues for WRDW for the three months ended March 31, 1996 increased \$125,000, or 6.4%, over the same period of the prior year. Broadcast net revenues, excluding the Augusta Acquisition, increased \$1.0 million, or 12.2%, over the three months ended March 31, 1995. Approximately \$627,000 and \$117,000 of the \$1.0 million increase in total broadcast net revenues, excluding the Augusta Acquisition, were due to higher local and political advertising spending, respectively. The Company's broadcast operations also experienced increased revenues of approximately \$200,000 associated with a sports programming joint venture which covered the University of Kentucky's NCAA basketball championship.

Publishing revenues increased \$776,000, or 16.2%, over the three months ended March 31, 1995, from \$4.8 million to \$5.6 million. Advertising and circulation revenues comprised \$471,000 and \$187,000, respectively, of the revenue increase. The increase in advertising revenue was primarily the result of rate and lineage increases in classified advertising. The increase in circulation revenue can be attributed primarily to price increases over the same period of the prior year and the conversion of the GWINNETT DAILY POST to a five-day-a-week paper. Approximately \$95,000 of the publishing revenue increase was the result of higher special events revenue.

OPERATING EXPENSES. Operating expenses for the three months ended March 31, 1996 increased \$3.2 million, or 28.6%, over the three months ended March 31, 1995, from \$11.2 million to \$14.4 million, due to the Augusta Acquisition and increased expenses at the broadcasting and publishing operations.

Broadcasting expenses for the three months ended March 31, 1996 increased \$1.7 million, or 30.8%, over the same period of the prior year, from \$5.6 million to \$7.3 million. This increase was primarily attributable to the Augusta Acquisition. On a pro forma basis, broadcast expenses for the Augusta Acquisition for the three months ended March 31, 1996 decreased \$133,000, or 9.1%, over the same period of 1995, from \$1.4 million to \$1.3 million. Broadcasting expenses, excluding the Augusta Acquisition, increased \$391,000, or 7.0%, primarily as a result of higher payroll related costs.

Publishing expenses for the three months ended March 31, 1996 increased \$846,000, or 21.4%, over the same period of the prior year, from \$4.0 million to \$4.8 million. This increase resulted primarily from the conversion of the GWINNETT DAILY POST to a five-day-a-week paper and the acquisition of shoppers in September 1995. Newsprint costs increased 27% while consumption of newsprint increased 11%. Payroll related costs, promotional costs, product delivery costs and outside service costs increased over the same quarter of the prior year.

Corporate and administrative expenses for the three months ended March 31, 1996 increased \$283,000, or 57.3%, over the same period of the prior year, from \$493,000 to \$776,000. This increase was attributable primarily to the addition of several new officers.

Depreciation of property and equipment and amortization of intangible assets was \$1.4 million for the three months ended March 31, 1996 compared to \$879,000 for the same period of the prior year, an increase of \$516,000, or 58.8%. This increase was primarily the result of higher depreciation and amortization costs related to the Augusta Acquisition and \$3.3 million of capital expenditures made in 1995.

Non-cash compensation paid in Class A Common Stock resulting from the Company's employment agreements with its current President and its former chief executive officer decreased \$176,000, or 74.6%, for the three months ended March 31, 1996, from \$236,000 to \$60,000. This decrease resulted from the Company's award in 1995 of 150,000 shares of Class A Common Stock to its former chief executive officer, the expense for such award was recognized in 1995 (including \$176,000 recognized in the quarter ended March 31, 1995).

INTEREST EXPENSE. Interest expense increased \$780,000, or 56.7%, from \$1.4 million for the three months ended March 31, 1995 to \$2.2 million for the three months ended March 31, 1996. This increase was attributable primarily to increased levels of debt resulting from the financing of the Augusta Acquisition.

NET INCOME. Net income for the Company was \$355,000 for the three months ended March 31, 1996, compared with \$404,000 for the same period in 1995, a decrease of \$49,000.

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

REVENUES. Total revenues for the year ended December 31, 1995 increased \$22.1 million, or 60.5%, over the year ended December 31, 1994, from \$36.5 million to \$58.6 million. This increase was attributable to (i) the effect of owning the Kentucky Business for all of 1995 versus the last four months of 1994 (\$12.9 million), (ii) the Publishing Acquisitions (\$6.4 million) and (iii) increases in total revenues of the Company of \$2.8 million (excluding the Kentucky Business and the Publishing Acquisitions). The Kentucky Acquisition and the Publishing Acquisitions accounted for \$19.3 million, or 87.3%, of the revenue increase.

Broadcast net revenues increased \$13.9 million, or 61.0%, over the prior year, from \$22.8 million to \$36.7 million. Revenues generated by the Kentucky Acquisition accounted for \$12.9 million, or 92.8%, of the increase. On a pro forma basis, broadcast net revenues for the Kentucky Business for the year ended December 31, 1995 increased \$2.7 million, or 16.1%, over the year ended December 31, 1994, from \$16.6 million to \$19.3 million. Broadcast net revenues, excluding the Kentucky Acquisition, increased 6.1%, or \$1.0 million, over the prior year. Approximately \$889,000 and \$304,000 of the \$1.0 million increase in total broadcast net revenues, excluding the Kentucky Acquisition, were due to higher local and national advertising spending, respectively. Approximately \$417,000 of the \$1.0 million increase in total broadcast net revenues, excluding the Kentucky Acquisition, is a result of higher network compensation negotiated by the Company with CBS and NBC. These increases were offset by a \$617,000 decrease in political advertising revenues associated with cyclical political activity.

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

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1995 increased \$21.5 million, or 71.1%, over the year ended December 31, 1994, from \$30.2 million to \$51.7 million, primarily due to the Kentucky Acquisition (\$9.8 million) and the Publishing Acquisitions (\$7.6 million).

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

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

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

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

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

**INTEREST EXPENSE.** Interest expense increased \$3.5 million, or 182.8%, from \$1.9 million for the year ended December 31, 1994 to \$5.4 million for the year ended December 31, 1995. This increase was attributable primarily to increased levels of debt resulting from the financing of the Kentucky Acquisition and the Publishing Acquisitions. The Company entered into a \$25 million notional amount five year interest rate swap agreement on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. The interest rate swap fixed the LIBOR base rate of the Old Credit Facility at 6.105% for the notional amount. Additional interest was due to or received from the bank based upon a comparison of the fixed base rate to the bank's three-month LIBOR rate on a quarterly basis. The Company recorded approximately \$34,000 of interest expense relative to the interest rate swap in 1995. The effective interest rate of the Old Credit Facility and interest rate swap at December 31, 1995 was approximately 8.64% and 9.10%, respectively.

**NET INCOME.** Net income for the Company was \$931,000 for the year ended December 31, 1995, compared with \$2.8 million for the year ended December 31, 1994, a decrease of \$1.9 million.

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

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



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

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

**OPERATING EXPENSES.** Operating expenses for the year ended December 31, 1994 increased \$8.7 million or 40.1% over the year ended December 31, 1993, from \$21.6 million to \$30.3 million, attributable primarily to the Kentucky Acquisition (\$4.4 million) and the 1994 Publishing Acquisitions (\$2.1 million).

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

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

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

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

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

**NET INCOME.** Net income for the Company was \$2.8 million for the year ended December 31, 1994, compared with \$2.5 million for the year ended December 31, 1993, an increase of \$300,000.

## RESULTS OF OPERATIONS OF THE PHIPPS BUSINESS

### INTRODUCTION

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

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

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

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,						THREE MONTHS ENDED MARCH 31,			
	1993		1994		1995		1995		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
TELEVISION BROADCASTING										
Revenues.....	\$19,460.1	83.7%	\$21,524.3	83.4%	\$22,424.1	82.1%	\$4,801.3	79.5%	\$5,207.8	79.6%
Operating income (1).....	6,636.4	92.8	9,298.1	91.6	9,635.3	90.4	1,828.8	83.7	1,918.2	84.9
PAGING										
Revenues.....	\$ 3,787.9	16.3%	\$ 4,276.6	16.6%	\$ 4,897.5	17.9%	\$1,238.4	20.5%	\$1,338.8	20.4%
Operating income (1).....	512.7	7.2	854.9	8.4	1,026.9	9.6	355.2	16.3	340.0	15.1

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

TELEVISION BROADCASTING AND PAGING REVENUES

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

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,						THREE MONTHS ENDED MARCH 31,			
	1993		1994		1995		1995		1996	
	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS
TELEVISION BROADCASTING										
Net revenues:										
Local.....	\$ 9,732.8	41.9%	\$10,412.2	40.4%	\$11,149.2	40.8%	\$2,370.2	39.3%	\$2,558.3	39.1%
National.....	7,057.2	30.4	7,217.0	27.9	7,844.9	28.7	1,646.7	27.3	1,691.2	25.8
Network compensation...	1,164.6	5.0	1,433.2	5.6	1,740.1	6.4	425.6	7.1	393.1	6.0
Political.....	9.1	0.0	1,147.1	4.4	33.9	0.1	--	--	50.8	0.8
Production and other (1).....	1,496.4	6.4	1,314.8	5.1	1,656.0	6.1	358.8	5.8	514.4	7.9
	\$19,460.1	83.7%	\$21,524.3	83.4%	\$22,424.1	82.1%	\$4,801.3	79.5%	\$5,207.8	79.6%

(1) Includes satellite broadcasting business.

Set forth below are the principal types of revenues earned by the Phipps Business's paging operations for the periods indicated and the percentage contribution of each to the Phipps Business's total revenues.

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,						THREE MONTHS ENDED MARCH 31,			
	1993		1994		1995		1995		1996	
	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS	AMOUNT	PERCENT OF TOTAL REVENUES OF PHIPPS BUSINESS
PAGING										
Net revenues:										
Paging lease and service.....	\$ 3,741.6	16.1%	\$ 4,201.4	16.3%	\$ 5,004.9	18.3%	\$1,214.9	20.1%	\$1,391.9	21.2%
Other.....	46.3	0.2	75.2	0.3	(107.4)	(.4)	23.5	0.4	(53.1)	(0.8)
	\$ 3,787.9	16.3%	\$ 4,276.6	16.6%	\$ 4,897.5	17.9%	\$1,238.4	20.5%	\$1,338.8	20.4%

#### MEDIA CASH FLOW

The following table sets forth certain operating data for the broadcast and paging operations for the years ended December 31, 1993, 1994 and 1995 and for the three months ended March 31, 1995 and 1996.

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
Operating income.....	\$4,686.9	\$7,667.6	\$7,381.8	\$1,414.7	\$1,887.1
Add:					
Amortization of program license rights.....	1,552.4	1,021.4	844.8	211.2	231.9
Depreciation and amortization.....	2,836.0	2,672.2	3,120.4	700.3	758.8
Corporate overhead.....	2,462.2	2,485.4	3,280.4	769.4	371.2
Less:					
Payments for program license liabilities...	(1,072.0)	(863.3)	(931.0)	(229.0)	(248.3)
Media Cash Flow (1).....	\$10,465.5	\$12,983.3	\$13,696.4	\$2,866.6	\$3,000.6

(1) Of Media Cash Flow, \$9.2 million, \$11.5 million and \$11.9 million was attributable to the Phipps Business's broadcasting operations in 1993, 1994 and 1995, respectively. Of Media Cash Flow, \$2.3 million and \$2.5 million was attributable to the Phipps Business's broadcasting operations for the three months ended March 31, 1995 and 1996, respectively.

#### CASH FLOW PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES

The following table sets forth certain operating data for the Phipps Business for the years ended December 31, 1993, 1994 and 1995 and for the three months ended March 31, 1995 and 1996.

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
Cash flows provided by (used in):					
Operating activities...	\$7,397	\$9,808	\$9,259	\$2,094	\$3,337

Investing activities...	(2,953)	(2,506)	(3,828)	(965)	(295)
Financing activities...	(4,418)	(7,233)	(4,906)	(1,092)	(3,476)

THREE MONTHS ENDED MARCH 31, 1996 COMPARED TO THREE MONTHS ENDED MARCH 31 1995

REVENUES. Total revenues for the three months ended March 31, 1996 increased \$507,000, or 8.4%, over the three months ended March 31, 1995, from \$6.0 million to \$6.5 million. This increase was attributable to an improvement in local, national and political advertising revenue in the broadcasting operations and the implementation of a reseller program in the paging operations.

Broadcast net revenues, including production and other, increased \$406,000, or 8.5%, over the same period of the prior year, from \$4.8 million to \$5.2 million. Approximately \$188,000, \$44,000, \$51,000 and \$155,000 of the increase in total broadcast net revenues was due to higher local advertising revenue, national

advertising revenue, political advertising revenue and production revenues, respectively, offset by a \$32,000 decrease in network compensation. In addition, revenues generated from satellite broadcasting operations increased due to additional equipment coming on line.

Net paging revenues increased \$100,000, or 8.1%, over the same period of the prior year, from \$1.2 million to \$1.3 million. The increase was attributable primarily to higher sales volume generated by a reseller program implemented during 1995.

OPERATING EXPENSES. Broadcasting expenses increased \$243,000, or 9.9%, over the same period of the prior year, from \$2.5 million to \$2.7 million. The increase was attributable primarily to higher payroll and related costs, higher levels of other expenditures in the sales and news departments and additional costs associated with new equipment.

Paging expenses increased \$140,000, or 20.2%, over the same period of the prior year, from \$695,000 to \$835,000. The increase was attributable primarily to higher payroll, sales and operating costs associated with revenue growth.

Corporate and administrative expenses for the three months ended March 31, 1996 decreased \$398,000, or 51.8%, from the same period of the prior year, from \$769,000 to \$371,000. The decrease was attributable to lower personnel costs and the termination of certain executive benefit plans.

Depreciation of property and equipment and amortization of intangible assets for the three months ended March 31, 1996 increased \$59,000, or 8.4%, over the same period as the prior year, from \$700,000 to \$759,000. This increase was primarily the result of higher depreciation costs relating to property and equipment purchases and higher amortization of intangible assets in connection with the purchase of certain minority interests of WKXT in Knoxville, Tennessee.

INTEREST EXPENSE. Interest expense decreased \$22,000, or 19.3% from the same period of the prior year from \$114,000 to \$92,000.

NET INCOME. The net income for the Phipps Business was \$1.7 million for the three months ended March 31, 1996 compared with \$1.2 million for the three months ended March 31, 1995, an increase of \$478,000 or 38.3%.

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

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

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

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

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

Broadcasting expenses increased \$276,000, or 2.7%, over the prior year, from \$10.2 million to \$10.5 million. The increase was attributable primarily to

higher payroll and related costs offset by lower syndicated film programming costs.

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

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

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

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

NET INCOME. Net income for the Phipps broadcasting and paging operations was \$6.3 million for the year ended December 31, 1995 compared with \$7.2 million for the year ended December 31, 1994, a decrease of \$900,000.

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

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

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

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

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

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

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

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

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

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

NET INCOME. Net income for the Phipps Business was \$7.2 million for the year ended December 31, 1994, compared with \$3.9 million for the year ended December 31, 1993, an increase of \$3.3 million.

## LIQUIDITY AND CAPITAL RESOURCES

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

The Company's working capital (deficiency) was \$1.1 million, \$(221,000) and \$3.1 million at December 31, 1994 and 1995, and March 31, 1996, respectively. The working capital of the Phipps Business was \$1.4 million, \$2.6 million and \$1.5 million at December 31, 1994 and 1995, and March 31, 1996, respectively. The Company's cash provided from operations was \$5.8 million and \$7.6 million for the years ended December 31, 1994 and 1995, respectively, and \$1.5 million and \$3.1 million for the three months ended March 31, 1995 and 1996, respectively. The Phipps Business's cash provided from operations was \$9.8 million and \$9.3 million for the years ended December 31, 1994 and 1995, respectively, and \$2.1 million and \$3.3 million for the three months ended March 31, 1995 and 1996, respectively.

The Company was provided \$3.0 million in cash in 1993 from investing activities and used \$42.8 million and \$8.9 million of cash in investing activities in 1994 and 1995, respectively. The change of \$45.9 million from 1993 to 1994 was due primarily to the Kentucky Acquisition and the 1994 Publishing Acquisitions. The change of \$33.9 million from 1994 to 1995 was due primarily to the Kentucky Acquisition and the 1994 Publishing Acquisitions, partially offset by the 1995 Publishing Acquisitions and the deferred costs related to the Augusta Acquisition. The Phipps Business's cash used in investing activities was \$2.5 million and \$3.8 million in 1994 and 1995, respectively. The Company's cash used in investing activities was \$2.4 million and \$36.0 million for the three months ended March 31, 1995 and 1996, respectively. The increased usage of \$33.6 million was due primarily to the Augusta Acquisition. The Phipps Business's cash used in investing activities was \$965,000 and \$295,000 for the three months ended March 31, 1995 and 1996, respectively.

The Company used \$4.9 million in cash in 1993, and was provided \$37.2 million and \$1.3 million in cash by financing activities in 1994 and 1995, respectively. The use of cash in 1993 resulted primarily from the repayment of debt while cash provided by financing activities in 1994 and 1995 was principally due to increased borrowings in 1994 to finance the Kentucky Acquisition and the 1994 Publishing Acquisitions, as well as increased borrowings in 1995 to finance the 1995 Publishing Acquisitions and the funding of the deposit for the Augusta Acquisition. On January 4, 1996, the Company acquired the Augusta Business. The cash consideration of approximately \$35.9 million, including acquisition costs of approximately \$600,000, was financed primarily through long-term borrowings under the Old Credit Facility and through the sale of the 8% Note to Bull Run. Long-term debt was \$54.3 million and \$88.4 million at December 31, 1995 and March 31, 1996, respectively. The balance of the Old Credit Facility was \$28.4 million and \$52.6 million, at December 31, 1995 and March 31, 1996, respectively. The effective interest rate of the Old Credit Facility was 8.96% at March 31, 1996. Principal maturities on long-term debt at December 31, 1995 included \$2.9 million and \$5.0 million for the years ended 1996 and 1997 respectively. The Company anticipates that its operating cash flows, together with borrowings available under the Senior Credit Facility will be sufficient to provide for such payments. For the year ended December 31, 1995, the Augusta Business reported net revenues and broadcast cash flow of \$8.7 million and \$2.8 million, respectively. The Phipps Business used \$7.2 million and \$4.9 million in cash for financing activities in 1994 and 1995, respectively. The Company was provided \$582,000 and \$34.4 million in cash by financing activities for the three months ended March 31, 1995 and 1996, respectively, due primarily to the funding of the Gwinnett Acquisition in 1995 and the Augusta Acquisition in 1996. The Phipps Business used \$1.1 million and \$3.5 million in cash for financing activities for the three months ended March 31, 1995 and 1996, respectively.

Under the terms of the Old Credit Facility, the Company had additional borrowing capacity at March 31, 1996 of approximately \$4.0 million. Under the Old Credit Facility, after giving effect to the consummation of this Offering, the Concurrent Offering, the KTVE Sale and the Phipps Acquisition, the Company would not have been able to incur additional indebtedness as of March 31, 1996. Under the terms



of the Old Credit Facility, the Company is allowed to make \$3.0 million of capital expenditures annually. The terms of the Senior Credit Facility allow for \$5.0 million of capital expenditures annually. The Company believes that cash flow from operations will be sufficient to fund such expenditures, which will be adequate for the Company's normal replacement requirements.

The Company regularly enters into program contracts for the right to broadcast television programs produced by others and program commitments for the right to broadcast programs in the future. Such programming commitments are generally made to replace expiring or canceled program rights. Payments under such contracts are made in cash or the concession of advertising spots for the program provider to resell, or a combination of both. At December 31, 1995, payments on program license liabilities due in 1996 and 1997, which will be paid with cash from operations, were \$491,000 and \$1.4 million, respectively.

In 1995, the Company made \$3.3 million in capital expenditures, relating primarily to the broadcasting operations and paid \$1.8 million for program broadcast rights. During the three months ended March 31, 1996, the Company made \$814,000 in capital expenditures, relating primarily to broadcasting operations, and paid \$662,000 for program broadcast rights. During 1995, the Phipps Business made \$3.2 million in capital expenditures and paid \$931,000 for program broadcast rights. During the three months ended March 31, 1996, the Phipps Business made \$710,000 in capital expenditures and paid \$248,000 for program broadcast rights. The Company anticipates making an aggregate of \$3.0 million in capital expenditures and \$2.7 million in payments for program broadcast rights during 1996. Subsequent to the consummation of the Phipps Acquisition, the Company anticipates that its annual capital expenditures will approximate \$5.0 million.

In addition to the consummation of the Phipps Acquisition, the Company intends to implement the Financing to increase liquidity and improve operating and financial flexibility. Pursuant to the Financing, the Company will (i) retire approximately \$52.6 million principal amount of outstanding indebtedness under the Old Credit Facility, together with accrued interest thereon, (ii) retire approximately \$25.0 million aggregate principal amount of outstanding indebtedness under the Senior Note, together with accrued interest thereon and a prepayment fee, (iii) issue \$10.0 million liquidation preference of its Series A Preferred Stock in exchange for the 8% Note issued to Bull Run, (iv) issue to Bull Run \$10.0 million liquidation preference of its Series B Preferred Stock with warrants to purchase up to 500,000 shares of Class A Common Stock (representing 10.1% of the currently issued and outstanding Class A Common Stock, after giving effect to the exercise of such warrants) for cash proceeds of \$10.0 million and (v) enter into the Senior Credit Facility which will provide for a term loan and revolving credit facility aggregating \$125.0 million. See "The Phipps Acquisition, the KTVE Sale and the Financing-The Financing."

The Old Credit Facility is a \$55.0 million line of credit available for working capital requirements and general corporate purposes. The Old Credit Facility matures in March 2003, provides for increasing quarterly amortization, includes certain customary financial covenants and bears interest at a rate of 3.5% over LIBOR, subject to adjustment based on the Company's leverage ratio. The Old Credit Facility also requires the Company to use its annual Excess Cash Flow (as defined) to repay indebtedness thereunder at the end of each year. The Senior Credit Facility is guaranteed by each of the Company's subsidiaries and is secured by liens on substantially all of the assets of the Company and its subsidiaries. As part of the Financing and as a condition of this Offering, the Company will replace the Old Credit Facility with the Senior Credit Facility and the Company has entered into a commitment letter with respect thereto. See "Description of Certain Indebtedness -- The Senior Credit Facility."

The Company has entered into the KTVE Agreement to sell KTVE for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of the closing, which is expected to occur by September 1996, although there can be no assurance with respect thereto. The Company anticipates the taxes for the KTVE Sale will aggregate approximately \$2.8 million.

In connection with the Phipps Acquisition, the Company will be required to divest WALB and WJHG under current FCC regulations. However, these rules may be revised by the FCC upon conclusion of pending rulemaking proceedings. In order to satisfy applicable FCC requirements, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and

with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Code. If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC under the waivers, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC. It is anticipated that the Company would be required to relinquish operating control of such assets to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. On a pro forma basis after giving effect to the Augusta Acquisition, the KTVE Sale, the Concurrent Offering, the Financing, the Phipps Acquisition and this Offering, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

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

## BUSINESS

The Company owns and operates seven network-affiliated television stations in medium-size markets in the southeastern United States, six of which are ranked number one in their respective markets. Five of the stations are affiliated with CBS and two are affiliated with NBC. In connection with the Phipps Acquisition, the Company will be required under current regulations of the FCC to divest its NBC affiliates in Albany, Georgia and Panama City, Florida. For a discussion of the Company's plans regarding such divestiture, see "Risk Factors -- FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing." The Company also owns and operates three daily newspapers, two shoppers and a paging business, all located in the Southeast. The Company derives significant operating advantages and cost saving synergies through the size of its television station group and the regional focus of its television and publishing operations. These advantages and synergies include (i) sharing television production facilities, equipment and regionally oriented programming, (ii) the ability to purchase television programming for the group as a whole, (iii) negotiating network affiliation agreements on a group basis and (iv) purchasing newsprint and other supplies in bulk. In addition, the Company believes that its regional focus can provide advertisers with an efficient network through which to advertise in the fast-growing Southeast.

In 1993, after the acquisition of a large block of Class A Common Stock by a new investor, the Company implemented a strategy to foster growth through strategic acquisitions. Since 1994, the Company's significant acquisitions have included three television stations and two newspapers, all located in the Southeast. As a result of the Company's acquisitions and in support of its growth strategy, the Company has added certain key members of management and has greatly expanded its operations in the television broadcasting and newspaper publishing businesses.

In January 1996, the Company acquired WRDW serving Augusta, Georgia for approximately \$35.9 million in cash, including acquisition costs of approximately \$600,000, but excluding assumed liabilities of approximately \$4.0 million. In December 1995, the Company entered into an asset purchase agreement to acquire two CBS-affiliated stations, WCTV serving Tallahassee, Florida/Thomasville, Georgia and WKXT in Knoxville, Tennessee, a satellite broadcasting business and a paging business. The Company believes that the Phipps Acquisition will further enhance the Company's position as a major regional television broadcaster and is highly attractive for a number of reasons, including (i) the stations' strategic fit within the Southeast, (ii) WCTV's leading station market position and WKXT's significant growth potential, (iii) strong station broadcast cash flows, (iv) opportunities for revenue growth utilizing the Company's extensive management expertise with medium-size stations and (v) opportunities for synergies between WCTV and WKXT and the Company's existing stations with regard to revenue enhancement and cost controls. The consummation of the Phipps Acquisition is currently expected to occur by September 1996, although there can be no assurance with respect thereto.

In May 1996, the Company entered into the KTVE Agreement to sell KTVE serving Monroe, Louisiana/El Dorado, Arkansas for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of the closing, which is expected to occur by September 1996, although there can be no assurance with respect thereto.

For the year ended December 31, 1995, on a pro forma basis, the Company had net revenues, Media Cash Flow, operating cash flow and net (loss) of \$90.6 million, \$30.3 million, \$28.1 million and \$(3.8) million, respectively. For the three months ended March 31, 1996, on a pro forma basis, the Company had net revenues, Media Cash Flow, operating cash flow and net (loss) of \$22.5 million, \$7.6 million, \$6.8 million and \$(810,000), respectively. Net revenues, Media Cash Flow and operating cash flow on a pro forma basis for the year ended December 31, 1995 increased 148.2%, 188.4%, and 227.9% respectively, while net income decreased 238.7% from the historical amounts for the year ended December 31, 1994. Net revenues, Media Cash Flow and operating cash flow on a pro forma basis for the three months ended March 31, 1996 increased 71.2%, 110.9% and 119.1 %, respectively, while net income decreased 300.5% from the historical amounts for the three months ended March 31, 1995.

The following table sets forth certain information for each of the Company's television stations.

STATION	NETWORK AFFILIATION	MARKET	YEAR ACQUIRED	DMA RANK(1)	CHANNEL/FREQUENCY	STATION RANK IN DMA(2)	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV	PRO FORMA	
								YEAR ENDED DECEMBER 31, 1995	
								NET REVENUES	OPERATING INCOME (6)
								(IN THOUSANDS)	
WKYT	CBS	Lexington, KY	1994	68	27/UHF (3)	1	33%	\$15,553	\$ 5,247
WYMT	CBS	Hazard, KY	1994	68	57/UHF (3)	1(4)	24	3,721	831
WRDW	CBS	Augusta, GA	1996	111	12/VHF	1	36	8,888	1,853
WALB(5)	NBC	Albany, GA	1954	152	10/VHF	1	80	9,445	4,795
WJHG(5)	NBC	Panama City, FL	1960	159	7/VHF	1	53	3,843	270
PHIPPS ACQUISITION									
WKXT	CBS	Knoxville, TN		62	8/VHF	3	22	9,269	2,479
WCTV	CBS	Tallahassee, FL		116	6/VHF	1	60	11,862	3,953
		Thomasville, GA							

THREE MONTHS ENDED MARCH 31, 1996

STATION	NET REVENUES	OPERATING INCOME (6)
(IN THOUSANDS)		
WKYT	\$ 3,823	\$ 1,130
WYMT	1,042	230
WRDW	2,080	482
WALB(5)	2,340	1,098
WJHG(5)	1,099	150
PHIPPS A		
WKXT	1,973	253
	2,801	835
WCTV		

- (1) Ranking of DMA served by a station among all DMAs is measured by the number of television households within the DMA based on the November 1995 Nielsen estimates.
- (2) Represents station rank in DMA as determined by November 1995 Nielsen estimates of the number of television sets tuned to the Company's station as a percentage of the number of television sets in use in the market for the Sunday through Saturday 6 a.m. to 2 a.m. time period.
- (3) All stations in the market are UHF stations.
- (4) The market area served by WYMT is an 18-county trading area, as defined by Nielsen, and is included in the Lexington, Kentucky DMA. WYMT's station rank is based upon its position in the 18-county trading area.
- (5) The Company will be required under current FCC regulations to divest WALB and WJHG in connection with the Phipps Acquisition. For a discussion of the Company's plans, see "Risk Factors-FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing."
- (6) Represents pro forma income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes.

The Company's three newspapers, THE ALBANY HERALD, THE ROCKDALE CITIZEN and the GWINNETT DAILY POST and two shoppers had net revenues and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes) of \$21.9 million and \$660,000, respectively, for the year ended December 31, 1995, \$5.6 million and \$402,000 for the three months ended March 31, 1996, respectively. The satellite broadcasting business and paging business, which are part of the Phipps Business, had net revenues and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes) of \$6.2 million and \$542,000 for the year ended December 31, 1995 and \$1.8 million and \$242,000 for the three months ended March 31, 1996, respectively.

The following table sets forth certain information for each of the Company's publications:

PUBLICATION	COVERAGE AREA	CIRCULATION	PUBLISHED PER WEEK	PRO FORMA		
				YEAR ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996	OPERATING INCOME (LOSS) (1)
THE ALBANY HERALD	25 counties in Southwest Georgia	34,000 daily 40,000 Sunday	7	\$ 13,535	\$ 2,010	\$ 3,518
THE ROCKDALE CITIZEN	2 counties in Georgia (metro Atlanta)	10,000	5	3,854	(212)	795
GWINNETT DAILY POST	1 county in Georgia (metro Atlanta)	13,000	5	2,432	(913)	695
SOUTHWEST GEORGIA SHOPPERS	10 counties in Southwest Georgia and 10 counties in North Florida	52,000	1	2,045	(224)	569

  

PUBLICATION	OPERATING INCOME (LOSS) (1)
THE ALBANY HERALD	\$ 820
THE ROCKDALE CITIZEN	(69)
GWINNETT DAILY POST	(191)
SOUTHWEST GEORGIA SHOPPERS	(158)

(1) Represents pro forma income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes.

#### REGIONAL FOCUS

The Company's television stations and publications are all located in the fast-growing southeastern United States. The Company believes that this regional focus provides it with significant competitive advantages and has enabled it to develop an expertise in serving medium-size southeastern markets. As a result of its ownership of seven network-affiliated television stations in the Southeast, the Company believes that there are opportunities to sell advertising to certain sponsors on all or several of its stations as a single buy. Further, the Company's ownership of multiple publications in several adjacent southeastern communities provides an attractive and efficient channel through which to sell local print advertising. The Company capitalizes on its regional presence by transferring management personnel, equipment, programming and news content among its stations and publications.

#### OPERATING STRATEGY

The Company has begun to introduce various operating strategies that have been successfully implemented at WKYT in Lexington, Kentucky throughout its station group. The Company's current President served as the general manager of WKYT from 1989 to 1995 and developed and successfully implemented many of the strategies being adopted at the Company's other stations. Set forth below are the Company's operating strategies.

**STRONG LOCAL PRESENCE.** Each of the Company's television stations seeks to achieve a distinct local identity principally through the depth and focus of its local news programming and by targeting specific audience groups with special programs and marketing events. Each station's local news franchise is the core component of the Company's strategy to strengthen audience loyalty and increase revenues and Media Cash Flow for each station. Strong local news generates high viewership and results in higher ratings both for programs preceding and following the news. All of the Company's stations that offer comprehensive local news coverage are the dominant local broadcast news source. WKXT in Knoxville, Tennessee currently does not offer significant local news coverage; the Company intends to significantly expand the news broadcast at this station after the consummation of the Phipps Acquisition.

Strong local news product also differentiates local broadcast stations from cable system competitors, which generally do not provide this service. The cost of producing local news programming generally is lower than other sources of programming and the amount of such local news programming can be increased or decreased on very short notice, providing the Company with greater programming flexibility.

The Company believes that its strong commitment to local broadcasting is integral to its ability to serve each of the communities in which it operates. In each of its markets, the Company develops information-oriented programming which expands the Company's hours of commercially valuable local programming with relatively small increases in operating expenses. In addition, each station utilizes special programming and marketing events, such as prime-time programming of local interest or sponsored community events, to strengthen community relations and increase advertising revenues. For example, certain of the Company's stations offer state governor call-in shows, local medical shows and cover local sporting events. The Company requires its senior staff to become actively involved in community affairs in an effort to better understand the issues in each community in which it operates.

A key component of the Company's publishing strategy is an emphasis on strong local content in its publications. Consequently, the Company focuses on local news, sports and lifestyle issues in order to foster reader loyalty with the objective of raising circulation and advertising rates. The Company's publications also sponsor community events such as bridal expositions with the objective of strengthening community relationships and building advertising revenues.

**TARGETED MARKETING.** The Company seeks to increase its advertising revenues and Media Cash Flow by expanding existing relationships with local and national advertisers and by attracting new advertisers through targeted marketing techniques and carefully tailored programming. The Company sells advertising locally through its sales employees and nationally through representative firms with which the Company enters into representation agreements. The Company works closely with advertisers to develop advertising campaigns that match specifically targeted audience segments with the advertisers' overall marketing strategies. With this information, the Company regularly refines its programming mix among network, syndicated and locally-produced shows in a focused effort to attract audiences with demographic characteristics desirable to advertisers. As a result of implementing this strategy, WKYT's share of advertising dollars exceeded its in-market share of households viewing television by 15% in 1995.

The Company's success in increasing advertising revenues at both its stations and publications is also attributable, in part, to the implementation of training programs for its marketing consultants that focus on innovative sales techniques, such as events marketing and demographic-specific projects, that target specific advertisers. The Company trains its marketing consultants to sell not only advertising spots, but also non-traditional advertising such as billboards for sponsored sports events and weather forecasts within newscasts. In addition, performance based compensation arrangements and performance accountability systems have contributed to the Company's success in increasing local advertising revenues. The Company has also benefitted from sharing ideas and information for increasing advertising revenues among its station group and publications. The Company's targeted marketing focus also includes the following key elements:

- **NON-TRADITIONAL REVENUE SOURCES.** The Company uses its stations' and publications' local promotional power in order to increase revenues from non-traditional sources by sponsoring and staging various special events, such as boat shows, fitness shows, bridal expositions and fishing tournaments. The Company derives revenues through the promotion, production and advertising sales generated by these events.
- **VENDOR MARKETING.** The Company engages in targeted vendor marketing whereby it contacts major vendors that supply a particular store or retail chain, and the management at a particular store or retail chain in order to arrange for the vendors to purchase local television advertising. The store or retail chain in turn agrees to purchase additional products from the vendor and also benefits from the increased local television advertising presence. As a result of this vendor marketing, the Company's stations are able to sell advertising to promote a local retailer, which the local retailer would not normally have purchased for itself.

**COST CONTROLS.** Through its strategic planning and annual budgeting processes, the Company continually seeks to identify and implement cost savings opportunities at each of its stations and publications in order to increase Media Cash Flow. The Company closely monitors expenses incurred by each of its stations and publications and continually reviews their performance and productivity. Additionally, the Company seeks to minimize its use of outside firms and consultants by relying on its in-house production and design capability.

In order to further reduce costs, the Company capitalizes on its regional focus through its ability to produce programming at one station which can be used by many of the Company's other stations. Further, the size of the Company's station group and its ownership of multiple publications gives it the ability to negotiate favorable terms with programming syndicators, newsprint suppliers, national sales representatives and other vendors. For example, the Company recently entered into a new agreement with its national sales representative, which significantly reduced the commissions payable by the Company for national advertising. Due to the proximity of the Company's operations, the Company's stations and publications share equipment, programming and management expertise. In addition, each station and publication reduces its corporate overhead costs by utilizing group benefits such as insurance and employee benefit plans provided by the Company.

#### ACQUISITION STRATEGY

The Company focuses on medium-size markets in the Southeast because the Company believes these markets offer superior opportunities in terms of projected population and economic growth, leading to higher advertising and circulation revenues. The Company intends to continue to consider additional acquisitions of television stations and publications that serve these markets. The Company has focused on acquiring television stations where it believes there is potential for improvements in revenue share, audience share and cost control. In assessing acquisitions, the Company targets stations where it sees specific opportunities for revenue enhancement utilizing management's significant experience in local and national advertising sales and in operating similar stations in the Southeast. In addition, projections of growth in the particular market are taken into account. The Company also targets stations and publications for which it can control expenditures as it expands the operation's revenue base. Typical cost savings arise from (i) reducing staffing levels and sharing management with other stations and publications, (ii) utilizing in-house production and design expertise, (iii) substituting more cost effective employee benefit programs, (iv) reducing travel and other non-essential expenses and (v) optimizing the purchase of newsprint and other supplies. Other than the Phipps Acquisition, the Company does not presently have any agreements to acquire any television stations or publications. See "The Phipps Acquisition, the KTVE Sale and the Financing." In appropriate circumstances, the Company will dispose of assets that it deems non-essential to its operating or growth strategy.

[Map of certain states in the southeast United States that sets forth state capitals and locations of the Company's stations]

#### TELEVISION BROADCASTING

##### THE COMPANY'S STATIONS AND THEIR MARKETS

AS USED IN THE TABLES FOR EACH OF THE COMPANY'S STATIONS IN THE FOLLOWING SECTION (I) "GROSS REVENUES" REPRESENT ALL OPERATING REVENUES EXCLUDING BARTER REVENUES; (II) "MARKET REVENUES" REPRESENT GROSS ADVERTISING REVENUES, EXCLUDING

BARTER REVENUES, FOR ALL COMMERCIAL TELEVISION STATIONS IN THE MARKET, AS REPORTED IN INVESTING IN TELEVISION 1995 MARKET REPORT, 4TH EDITION JULY 1995 RATINGS PUBLISHED BY BIA PUBLICATIONS, INC., EXCEPT FOR REVENUES IN WYMT-TV'S ("WYMT") 18-COUNTY TRADING AREA WHICH IS NOT SEPARATELY REPORTED IN SUCH BIA PUBLICATIONS, INC.'S REPORT; (III) "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; AND (IV) "STATION RANK IN DMA" IS BASED ON NIELSEN ESTIMATES FOR NOVEMBER OF EACH YEAR FOR THE PERIOD FROM 6 A.M. TO 2 A.M. SUNDAY THROUGH SATURDAY.

STATION	MARKET	DMA RANK(1)	COMMERCIAL STATIONS IN DMA(2)	STATION RANK IN DMA	TELEVISION HOUSEHOLDS(3)	MARKET REVENUES IN DMA FOR 1995	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV
(IN THOUSANDS)							
WKYT	Lexington, KY	68	5	1	387,000	\$46,100	33%
WYMT (4)	Hazard, KY	68	N/A	1	169,000	4,100	24
WRDW	Augusta, GA	111	4	1	221,000	26,300	36
WALB (5)	Albany, GA	152	3	1	132,000	12,200	80
WJHG (5)	Panama City, FL	159	4	1	110,000	8,500	53
PHIPPS ACQUISITION(6)							
WKXT	Knoxville, TN	62	4	3	429,000	57,900	22
WCTV	Tallahassee, FL/ Thomasville, GA	116	4	1	210,000	19,900	60

- (1) Ranking of DMA served by a station among all DMAs is measured by the number of television households based within the DMA on the November 1995 Nielsen estimates.
- (2) Includes independent broadcasting stations.
- (3) Based upon the approximate number of television households in the DMA as reported by the November 1995 Nielsen index.
- (4) The market area served by WYMT is an 18-county trading area, as defined by Nielsen, and is included in the Lexington, Kentucky DMA. WYMT's station rank is based upon its position in the 18-county trading area.
- (5) The Company will be required to divest WALB and WJHG in connection with the Phipps Acquisition. For a discussion of the Company's plans, see "Risk Factors-FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing."
- (6) The closing of the Phipps Acquisition is expected to occur by September 1996, although there can be no assurance with respect thereto.

The following is a description of each of the Company's stations:

WKYT, THE CBS AFFILIATE IN LEXINGTON, KENTUCKY

WKYT, acquired by the Company in September 1994, began operations in 1957. Lexington, Kentucky is the 68th largest DMA in the United States, with approximately 387,000 television households and a total population of approximately 1.1 million. Total Market Revenues in the Lexington DMA in 1995 were approximately \$46.1 million, a 6% increase over 1994. WKYT's gross revenues for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$17.6 million and \$4.3 million, respectively, an increase of 14.6% and 9.4% from the corresponding prior periods. WKYT's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$1.2 million and \$187,000, respectively, an increase of 93.8% and 3.7%, respectively, from the corresponding prior periods. The Lexington DMA has five licensed commercial television stations, including WYMT, WKYT's sister station, all of which are affiliated with major networks. The Lexington DMA also has one public television station.



The following table sets forth Market Revenues for the Lexington DMA and in-market share and ranking information for WKYT:

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in DMA	\$39,500	\$43,500	\$46,100
Market Revenues growth over prior year	13%	10%	6%
In-market share of households viewing television	38%	37%	33%
Rank in market	1	1	1

**MARKET DESCRIPTION.** The Lexington DMA consists of 38 counties in central and eastern Kentucky. The Lexington area is a regional hub for shopping, business, healthcare, education, and cultural activities and has a comprehensive transportation network and low commercial utility rates. Major employers in the Lexington area include Toyota Motor Corp., Lexmark International, Inc., GTE Corporation, Square D Company, Ashland, Inc. and International Business Machines Corporation. Toyota Motor Corp. operates a large production facility near Lexington, employing 6,000 people and in May 1995 announced plans to build its next generation mini-van at this facility. Eight hospitals and numerous medical clinics are located in Lexington, reinforcing Lexington's position as a regional medical center. The University of Kentucky which is located in Lexington, is also a major employer with approximately 10,000 employees, and has a full time enrollment of approximately 24,000 students. In addition, Lexington is an international center of the equine industry with the Kentucky Horse Park, a 1,000 acre park that attracts approximately 700,000 visitors annually.

**STATION PERFORMANCE.** WKYT, which operates on channel 27, is a CBS affiliate. WKYT can be viewed on 86 cable systems in its DMA and 51 cable systems outside its DMA. In 1995, WKYT celebrated its 20th consecutive year as the Lexington DMA's most watched local news program. Every broadcast of "27 Newsfirst"-at 6 a.m., noon, 5 p.m., 5:30 p.m., 6 p.m. and 11 p.m.-continues to be the number one rated program in its time period. WKYT's news programs also provide support and coverage of local events through public service announcements, on-air bulletin boards and special reports, such as CRIMESTOPPERS, 27 ON THE TOWN and HOMETOWN HEROES. Based on the November 1995 Nielsen index, WKYT is ranked number one in its market, with a 33% in-market share of households viewing television, which is five percentage points ahead of the competition. WKYT received 38% of the Lexington DMA's Market Revenues in 1995. The station attributes its success to the experience of its senior management and local sales staff, which focus on developing strong relationships with local advertisers and devoting significant attention to the quality and content of WKYT's local news programming.

Since the 1970's WKYT has been the flagship station for the University of Kentucky Sports Network, producing sports events and coaches' shows, such as the RICK PITINO COACH'S SHOW a half-hour show featuring the University of Kentucky Basketball coach, that air on a 10-station network across Kentucky. Although WKYT focuses on the most popular University of Kentucky Wildcat sports, basketball and football, the station also features other intercollegiate sports, such as baseball, tennis and swimming/diving.

WKYT has a full mobile production unit that produces a variety of events, including sports events, beauty pageants and horse racing. In addition, WKYT has a Doppler Weather Radar System, the latest technology available in weather forecasting. In 1995, WKYT spent over \$1.3 million on capital improvements, including a complete studio and master control room renovation and the addition of Maxigrid, an inventory management system.

Cross-promotion and partnerships with radio, newspapers and businesses are a source of non-traditional revenue as well as a means of community involvement. WKYT is also party to the first joint venture in the Lexington market through its production of a 10 p.m. newscast for WDKY-TV, an affiliate of the Fox Broadcasting Company ("Fox") in Lexington, which provides additional exposure for the station's news talent as well as a new source of revenue for WKYT.

Local programming produced by WKYT includes SCOTT'S PLACE, a weekly half-hour children's show which is carried on WALB, WJHG and WRDW, and DIRECTIONS and 27 NEWSMAKERS, two weekly public affairs programs dealing with minority and government and political issues, respectively. In addition, WKYT also carries programming provided by CBS and syndicated programming, including OPRAH!, JEOPARDY!, WHEEL OF FORTUNE and THE ANDY GRIFFITH SHOW.

The Company's President and the current station manager at WALB are both former members of senior management at WKYT.

WYMT, THE CBS AFFILIATE IN HAZARD, KENTUCKY

WYMT, acquired by the Company in September 1994, began operations in 1985. WYMT has carved out a niche trading area comprising 18 counties in eastern and southeastern Kentucky. This trading area is a separate market area of the Lexington, Kentucky DMA with approximately 169,000 television households and a total population of approximately 463,000. WYMT is the only commercial television station in this 18-county trading area. Total Market Revenues in the 18-county trading area and WYMT's gross revenues in the 18-county trading area for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$4.1 million and \$1.2 million, respectively, an increase of 9% and 15%, respectively, from the corresponding prior periods. WYMT's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$32,000 and \$19,000, respectively, a decrease of 38.1% and 46.1%, respectively, from the corresponding prior periods. WYMT is the sister station of WKYT and shares many resources and simulcasts some local programming with WKYT.

The following table sets forth Market Revenues for the 18-county trading area and ranking information for WYMT (based upon its position in its 18-county trading area):

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in the 18-county trading area (1)	\$3,500	\$3,800	\$4,100
Market Revenues growth over prior year	12%	8%	9%
In-market share of households viewing television	25%	20%	24%
Rank in market	1	1	1

(1) Represents the gross revenues of WYMT, which is the only commercial television station in the 18-county trading area. The Company is unable to determine the amount of Market Revenue for the 18-county trading area which may be attributable to other television stations serving the Lexington DMA.

MARKET DESCRIPTION. The mountain region of eastern and southeastern Kentucky where Hazard is located is on the outer edges of four separate markets: Bristol-Kingsport-Johnson City, Charleston-Huntington, Knoxville and Lexington. Prior to 1985, mountain residents relied primarily on satellite dishes and cable television carrying distant signals for their television entertainment and news. Established in 1985, WYMT is the only broadcast station which can be received over the air in a large portion of its 18-county trading area and may now be viewed on 100 cable systems.

The trading area's economy is centered around coal and related industries and some light manufacturing. In recent years, the coal industry has undergone a major restructuring due to consolidation in the industry and advances in technology. Approximately 10,700 manufacturing jobs exist in the Hazard trading area, most of which are concentrated in the Cumberland Valley area, a Kentucky Area Development District located in the southern portion of the 18-county trading area.

STATION PERFORMANCE. WYMT, which operates on channel 57, is a CBS affiliate. WYMT is ranked number one, based on November 1995 Nielsen estimates, in its trading area with a 24% in-market share of households viewing television, which is nine points ahead of the competition. WYMT's Mountain News at 6:30 a.m., 6 p.m. and 11 p.m. is ranked number one in the 18-county trading area. WYMT's Mountain News at 6 p.m. is ranked number two in the entire Lexington DMA by Nielsen, behind only its sister station WKYT. In addition to the Mountain News, WYMT simulcasts WKYT's 6 a.m., noon, 5 p.m. and 5:30 p.m. newscasts Monday through Friday, all of which rank number one in the 18-county trading area. WYMT includes local

inserts into these simulcasted news programs in order to add an enhanced degree of local content. The station attributes its success to its position as the only commercial broadcaster in the 18-county trading area and to customer and community loyalty.

WYMT considers its news department to be a key component of its operations. The station is strategically positioned with a central newsroom in Hazard and two satellite news bureaus, one in Middlesboro, Kentucky (the Cumberland Valley) and one in Harold, Kentucky (the Big Sandy region). Microwave links to these regional news bureaus and to WYMT's sister station WKYT in Lexington, Kentucky, provide the news operation with the ability to report on, coordinate and share the latest news information and coverage throughout the mountain region and from Lexington.

In 1994 WYMT installed a state-of-the-art digital playback system in its master control room. This new system has allowed WYMT to adopt a computer-based playback format that has resulted in significant cost savings and an improved on-air appearance.

Strong local business and general community relations are an important component of WYMT's success. WYMT continues to develop partnerships with current and potential new clients through the production of various special annual events that also serve to strengthen community ties and enhance advertising revenue. Examples of such events include the Mountain Basketball Classic, the Charity Golf Classic and the Boat and RV Show.

WRDW, THE CBS AFFILIATE IN AUGUSTA, GEORGIA

WRDW, acquired by the Company in January 1996, began operations in 1954. Augusta, Georgia is the 111th largest DMA in the United States, with approximately 221,000 television households and a total population of approximately 627,000. Total Market Revenues in the Augusta DMA in 1995 were approximately \$26.3 million, a 6% increase over 1994. WRDW's gross revenues for the year ended December 31, 1995 and the three months ended March 31, 1996 were approximately \$9.6 million and \$2.4 million, respectively, an increase of 5.7% and 12.0%, respectively, from the corresponding prior periods. WRDW's net income (loss) (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$2.2 million and \$(187,000), an increase of 4.9% and a decrease of 149.7%, respectively, from the corresponding prior periods. The Augusta DMA has four licensed commercial television stations, all of which are affiliated with a major network. The Augusta DMA also has two public television stations.

The following table sets forth Market Revenues for the Augusta DMA and in-market share and ranking information for WRDW:

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in DMA	\$22,800	\$24,800	\$26,300
Market Revenues growth over prior year	8%	9%	6%
In-market share of households viewing television	36%	36%	36%
Rank in market	1	1	1

MARKET DESCRIPTION. The Augusta DMA consists of 19 counties in eastern Georgia and western South Carolina, including the cities of Augusta, Georgia and North Augusta and Aiken, South Carolina. The Augusta, Georgia area is one of Georgia's major metropolitan/regional centers, with a particular emphasis on health services, manufacturing and the military. The Federal government employs over 12,500 military and 4,600 civilian personnel at the Department of Energy's Savannah River Site, a nuclear processing plant, and Fort Gordon, a U.S. Army military installation. Augusta has eight large hospitals which collectively employ 20,000 and reinforce Augusta's status as a regional healthcare center. Augusta is also home to the Masters Golf Tournament, which has been broadcast by CBS for 41 years.

STATION PERFORMANCE. WRDW, which operates on channel 12, is a CBS affiliate. Based on November 1995 Nielsen estimates, WRDW is ranked number one in its market, with a 36% in-market share of households viewing television, which is one share point ahead of the competition. WRDW also received 36% of the Augusta DMA's Market Revenues in 1995. WRDW can be viewed on all 29 cable systems in its DMA and nine cable systems outside of its DMA. Since 1992, WRDW has risen from a weak second-place ranking to the number one position. WRDW's weekday news programs at 6 a.m., noon, 5 p.m., 11 p.m., and four weekend slots are ranked number one in household rating and share. WRDW attributes its number one position in the market to its strong syndicated programming which leads into and out of its weekly news programs as well as its expanded local news coverage. WRDW was also the leader in prime time in the November 1995 Nielsen estimates. WRDW has positioned itself as "Your 24 Hour News Source" in the DMA. In January 1996, WRDW began providing local cut-ins to the CNN news slots on cable, with all revenues from commercial inserts going to the station. In addition, as the local CBS affiliate in the DMA, WRDW produces local Masters programming, such as THE GREEN JACKET PROGRAM, a show hosted by Paul Davis that includes interviews with many golf celebrities.

The station also produces its own local programming, including INSIDE AGRICULTURE, a weekly program and PAINE COLLEGE PRESENTS, a bi-monthly local public affairs show. In addition to carrying the programming provided by CBS, WRDW carries syndicated programming including: OPRAH!, INSIDE EDITION, WHEEL OF FORTUNE and JEOPARDY!

WALB, THE NBC AFFILIATE IN ALBANY, GEORGIA

WALB was founded by the Company and began operations in 1954. Albany, Georgia is the 152nd largest DMA in the United States with approximately 132,000 television households and a total population of approximately 380,000. Total Market Revenues in the Albany DMA in 1995 were approximately \$12.2 million, a 5% increase over 1994. WALB's gross revenues for the year ended December 31, 1995 and for three months ended March 31, 1996 was approximately \$10.5 million and \$2.6 million, respectively, an increase of 3.5% and 6.7%, respectively, from the corresponding prior periods. WALB's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and for three months ended March 31, 1996 was approximately \$3.0 million and \$686,000, respectively, a decrease of 14.6% and an increase 8.0%, respectively, from the corresponding prior periods. The Albany DMA has three licensed commercial television stations, two of which are affiliated with major networks. The Albany DMA also has two public television stations.

The following table sets forth Market Revenues for the Albany DMA and in-market share and ranking information for WALB:

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in DMA	\$10,900	\$11,600	\$12,200
Market Revenues growth over prior year	8%	6%	5%
In-market share of households viewing television	81%	80%	80%
Rank in market	1	1	1

MARKET DESCRIPTION. The Albany DMA, consists of 17 counties in southwest Georgia. Albany, 170 miles south of Atlanta, is a regional center for manufacturing, agriculture, education, health care and military service. Leading employers in the area include: The Marine Corps Logistics Base, Phoebe Putney Memorial Hospital, The Proctor & Gamble Company, Miller Brewing Company, Cooper Tire & Rubber Company, Bob's Candies, Coats and Clark Inc., Merck & Co., Inc., MacGregor (USA) Inc. and M&M/Mars. Albany State College, Darton College and Albany Technical Institute are located within this area.

STATION PERFORMANCE. WALB, which operates on channel 10, is the only VHF station in the Albany DMA and is an NBC affiliate. Based on the November 1995 Nielsen estimates, WALB is ranked number one in its market, with an 80% in-market share of households viewing television, which is 63 share points ahead

of the competition. WALB has the strongest signal in its DMA and can be viewed on all of the 26 cable systems in its DMA and 51 cable systems outside of its DMA. WALB received 86% of the Albany DMA's Market Revenues in 1995.

WALB is known as "South Georgia's Number One News Source." The station's news is its primary focus. WALB is the number one local news source in all of its time slots. WALB is the only station in its market with both electronic and satellite news gathering trucks, allowing the Company to provide live coverage. WALB broadcasts three hours and 20 minutes of news weekdays and one hour of news each weekend day.

WALB considers its dedication to the community to be a key component of its operations. For example, WALB devoted substantial resources in 1994 to expand its local news coverage and programming. Such investment allowed WALB to provide the most extensive flood coverage available to viewers during the flood in July 1994, which was one of the largest natural disasters to occur in Georgia in recent history. This coverage made WALB one of the top-rated stations in the United States in terms of in-market share of households viewing television in July 1994, as measured by Nielsen. In addition, the Georgia Broadcasters Association presented WALB with two of its top awards in 1994: the "1994 TV Community Service Award" for its dedication to providing local community service and the "1994 TV Station Promotion of the Year" award for the station's nearly year long broadcast of its "Learn to Read" program.

The station produces its own local programming including TOWN AND COUNTRY, a live morning show that travels to various locations in Georgia and DIALOG, a weekly public affairs show focusing on minority issues. In addition to carrying programming supplied by NBC, WALB carries syndicated programming, including OPRAH!, ENTERTAINMENT TONIGHT, THE ANDY GRIFFITH SHOW, MONTEL WILLIAMS, RICKI LAKE, AMERICAN JOURNAL, and HARD COPY.

The Company will be required to divest this station pursuant to existing FCC regulations. See "Risk Factors-FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing."

WJHG, acquired by the Company in 1960, began operations in 1953. Panama City, Florida is the 159th largest DMA in the United States, with approximately 110,000 television households and a total population of approximately 298,000. Total Market Revenues in the Panama City DMA in 1995 were approximately \$8.5 million, a 6% increase over 1994. WJHG's gross revenues for the year ended December 31, 1995 and for the three months ended March 31, 1996 were approximately \$4.3 million and \$1.2 million, respectively, an increase of 7.7% and 28.1%, respectively, from the corresponding prior periods. WJHG's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and for the three months ended March 31, 1996 was approximately \$205,000 and \$103,000, respectively, a decrease of 1.4% and an increase of 134.8%, respectively, from the corresponding prior periods. The Panama City DMA has four licensed commercial television stations, three of which are affiliated with major networks. In addition, a CBS signal is provided by a station in Dothan, Alabama, an adjacent DMA. The Panama City DMA also has one public television station.

The following table sets forth Market Revenues for the Panama City DMA and in-market share and ranking information for WJHG:

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in DMA	\$7,400	\$8,000	\$8,500
Market Revenues growth over prior year	11%	8%	6%
In-market share of households viewing television	51%	46%	53%
Rank in market	1	1	1

**MARKET DESCRIPTION.** The Panama City DMA consists of nine counties in northwest Florida. The Panama City market stretches north from Florida's Gulf Coast to Alabama's southern border. The Panama City economy centers around tourism, military bases, manufacturing, education and financial services. Panama City is the county seat and principal city of Bay County. Leading employers in the area include: Tyndall Air Force Base, the Navy Coastal Systems Station, Sallie Mae Servicing Corp., Stone Container Corporation, Arizona Chemical Corporation, Russell Corporation and Gulf Coast Community College. Panama City is also a spring break destination for college students and drew approximately 550,000 students during 1995.

**STATION PERFORMANCE.** WJHG, which operates on channel 7, is an NBC affiliate. Based on November 1995 Nielsen estimates, WJHG is ranked number one in its market, with a 53% in-market share of households viewing television, which is 17 share points ahead of the competition. WJHG received 50% of the Panama City DMA's Market Revenues in 1995. WJHG can be viewed on all of the 36 cable systems in its DMA and on 29 cable systems outside its DMA.

WJHG dominates the Panama City market in all popular news time periods and has twice the audience viewership at 5 p.m. and 10 p.m. as does the competition. WJHG also has the number one news ranking in its market at 6:30 a.m., 6 p.m. and on weekends. WJHG's ratings success in its newscasts have allowed it to increase its overall unit rates and to negotiate for larger shares of advertisers' national budgets. WJHG considers its news department to be a key component of its operations and in 1994, devoted substantial resources to redesign the set, purchase new cameras, add new graphics, develop a new logo and reformat newscasts. As part of the continuing growth of its news product, WJHG recently introduced the first noon newscast in Panama City.

WJHG has also launched a direct mail campaign to attract new advertisers to the station. As a result of these factors, WJHG increased its gross revenues by 7.7% in 1995. WJHG is also focusing on other non-traditional revenue sources, such as developing a health exposition, a children's fair and a wedding show, all of which are scheduled to occur in 1996.

In addition to carrying programming provided by NBC, WJHG carries syndicated programming, including WHEEL OF FORTUNE, JEOPARDY!, HARD COPY, MAURY POVICH, JENNY JONES and RICKI LAKE.

The Company will be required to divest this station pursuant to existing FCC regulations. See "Risk Factors-FCC Divestiture Requirement" and "The Phipps Acquisition, the KTVE Sale and the Financing."

WKXT, THE CBS AFFILIATE IN KNOXVILLE, TENNESSEE

WKXT, which will be acquired pursuant to the Phipps Acquisition, began operations in 1988. Knoxville, Tennessee is the 62nd largest DMA in the United States, with approximately 429,000 television households and a total population of approximately 1.1 million. Total Market Revenues in the Knoxville DMA in 1995 were approximately \$57.9 million, a 6% increase over 1994. WKXT's gross revenues for the year ended December 31, 1995 and the three months ended March 31, 1996 were approximately \$10.6 million and \$1.9 million, respectively, an increase of 2.3% and a decrease of 0.4%, respectively, from the corresponding prior periods. WKXT's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$1.4 million and \$256,000, respectively, an increase of 15.2% and a decrease of 0.6%, respectively, from the corresponding prior periods. The Knoxville DMA has four licensed commercial television stations, all of which are affiliated with major networks. The Knoxville DMA also has two public broadcasting stations.

The following table sets forth Market Revenues for the Knoxville DMA and in-market share and ranking information for WKXT:

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in DMA	\$47,900	\$54,600	\$57,900
Market Revenues growth over prior year	14%	14%	6%
In-market share of households viewing television	24%	23%	22%
Rank in market	3	3	3

MARKET DESCRIPTION. The Knoxville DMA, consisting of 22 counties in eastern Tennessee and southeastern Kentucky, includes the cities of Knoxville, Oak Ridge and Gatlinburg, Tennessee. The Knoxville area is a center for education, manufacturing, healthcare and tourism. The University of Tennessee's main campus is located within the city of Knoxville. It employs approximately 6,400 people and has an enrollment of approximately 26,000 students. Leading manufacturing employers in the area include: Lockheed Martin Energy Systems, Inc., Levi Strauss & Company, DeRoyal Industries, Aluminum Company of North America, Phillips Consumer Electronics North America Corp., Clayton Homes and Sea Ray Boats, Inc. which employ approximately 26,800 people, collectively. The Knoxville area also has eight hospitals which employ approximately 16,900 employees. Area tourist attractions are the Great Smokey Mountains National Park and Dollywood, a country-western theme park sponsored by Dolly Parton. The Great Smokey Mountains National Park and Dollywood had approximately 9.1 million and 2.2 million visitors, respectively during 1995. Dollywood employs approximately 1,800 people.

STATION PERFORMANCE. WKXT is a CBS affiliate and operates on channel 8. WKXT is one of three commercial VHF stations in the Knoxville DMA. Based on November 1995 Nielsen estimates, WKXT is ranked third in its market, with a 22% in-market share of households viewing television. WKXT can be viewed on 52 cable systems in its DMA and on 15 cable systems outside its DMA. WKXT received 18% of the Knoxville DMA's Market Revenues in 1995.

WKXT produces only one hour of news each day. The Company plans to implement its operating strategy at WKXT by developing comprehensive news programming upon consummation of the Phipps Acquisition.

In addition to carrying network programming supplied by CBS, WKXT carries syndicated programming including BAYWATCH, NORTHERN EXPOSURE, REGIS & KATHIE LEE, MAURY POVICH, AMERICAN JOURNAL, ENTERTAINMENT TONIGHT, HARD COPY, and THE ANDY GRIFFITH SHOW.

WCTV, THE CBS AFFILIATE IN TALLAHASSEE, FLORIDA/THOMASVILLE, GEORGIA

WCTV, which will be acquired pursuant to the Phipps Acquisition, began operations in 1955. Tallahassee, Florida/Thomasville, Georgia is the 116th largest DMA in the United States, with approximately

210,000 television households and total population of approximately 586,000. Total Market Revenues in the Tallahassee/Thomasville DMA in 1995 were approximately \$19.9 million, a 5% increase over 1994. WCTV's gross revenues for the year ended December 31, 1995 and the three months ended March 31, 1996 were approximately \$13.3 million and \$4.8 million, respectively, an increase of 3.2% and a decrease of 2.9%, respectively, from the corresponding prior periods. WCTV's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1995 and the three months ended March 31, 1996 was approximately \$3.7 million and \$784,000, respectively, an increase of 1.4% and 5.8%, respectively, from the corresponding prior periods. The Tallahassee/Thomasville DMA has four licensed commercial television stations, all of which are affiliated with major networks. The Tallahassee/Thomasville DMA also has one public station that is owned by the Florida State University Board of Regents.

The following table sets forth Market Revenues in the Tallahassee/Thomasville DMA and in-market share and ranking information for WCTV:

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
Market Revenues in DMA	\$17,200	\$18,900	\$19,900
Market Revenues growth over prior year	4%	10%	5%
In-market share of households viewing television	64%	65%	60%
Rank in market	1	1	1

**MARKET DESCRIPTION.** The Tallahassee/Thomasville DMA, consisting of 18 counties in the panhandle of Florida and southwest Georgia, includes Tallahassee, the capital of Florida, and Thomasville, Valdosta and Bainbridge, Georgia. The Tallahassee/Thomasville economy centers around state and local government as well as state and local universities which include Florida State University, Florida A&M, Tallahassee Community College and Valdosta State College. Florida State University is the largest university located in the DMA with total enrollment of approximately 29,000 students. Florida State University's main campus is located within the city of Tallahassee. State and local government agencies employ approximately 36,700 and 8,500 people, respectively, in the Tallahassee area.

**STATION PERFORMANCE.** WCTV is a CBS affiliate and operates on channel 6. WCTV is the only VHF station in the Tallahassee/Thomasville DMA. Based on November 1995 Nielsen estimates, WCTV is ranked number one in its market, with a 60% in-market share of households viewing television. WCTV can be viewed on 47 cable systems in its DMA and 32 cable systems outside of its DMA. WCTV received 67% of the Tallahassee/Thomasville DMA's Market Revenues in 1995.

WCTV considers its news department to be a key component of its operations; approximately 43% of its employees are devoted to its news department and approximately 40% of the WCTV's revenues are generated by news programming. The station attributes its successful news programming in part to its bureaus in Tallahassee, Valdosta and Thomasville and its news gathering vehicle. WCTV produces five news programs and six news cut-ins each day which total three and one-half hours of news per weekday. All news programs are closed-captioned. The station has the number one in-market share in news at 6 a.m., noon, 5:30 p.m., 6 p.m. and 11 p.m. on weekdays and 6 p.m. and 11 p.m. on weekends.

The station produces the BOBBY BOWDEN SHOW, a coach's show for Florida State University. In addition to carrying network programming supplied by CBS, WCTV carries syndicated programming including WHEEL OF FORTUNE, JEOPARDY!, OPRAH! and SEINFELD.

#### INDUSTRY BACKGROUND

There are currently a limited number of channels available for broadcasting in any one geographic area, and the license to operate a television station is granted by the FCC. Television stations which broadcast over the very high frequency ("VHF") band (channels 2-13) of the spectrum generally have some competitive advantage over television stations which broadcast over the ultra-high frequency ("UHF") band (channels above 13) of the spectrum, because the former usually have better signal coverage and operate at a lower



transmission cost. However, the improvement of UHF transmitters and receivers, the complete elimination from the marketplace of VHF-only receivers and the expansion of cable television systems have reduced the VHF signal advantage.

Television station revenues are primarily derived from local, regional and national advertising and, to a much lesser extent, from network compensation and revenues from 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 and the availability of alternative advertising media in the market area. Rates are also determined by a station's overall ratings and in-market share, as well as the station's ratings and share among particular demographic groups which an advertiser may be targeting. Because broadcast stations rely on advertising revenues, they are sensitive to cyclical changes in the economy. The size of advertisers' budgets, which are affected by broad economic trends, affect the broadcast industry in general and the revenues of individual broadcast television stations.

All television stations in the country are grouped by Nielsen, a national audience measuring service, into approximately 210 generally recognized television markets that are ranked in size according to various formulae based upon actual or potential audience. Each DMA 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. The estimates are expressed in terms of the percentage of the total potential audience in the market viewing a station (the station's "rating") and of the percentage of households using television actually viewing the station (the station's "share"). Nielsen provides such data on the basis of total television households and selected demographic groupings in the market. Nielsen uses two methods of determining a station's ability to attract viewers. In larger geographic markets, ratings are determined by a combination of meters connected directly to selected television sets and weekly diaries of television viewing, while in smaller markets only weekly diaries are utilized. All of the Company's stations operate in markets where only weekly diaries are used.

Historically, three major broadcast networks, Capital Cities/ABC, Inc. ("ABC"), NBC and CBS, dominated broadcast television. In recent years, Fox has evolved into the fourth major network by establishing a network of independent stations whose operating characteristics are similar to the major network affiliate stations, although the number of hours of network programming produced by Fox for its affiliates is less than that of the three major networks. In addition, UPN and WB recently have been launched as new 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 a major network. Currently, UPN and WB provide 10 and 11.5 hours of programming per week to their affiliates, respectively.

The affiliation of a station with one of the four major networks has a significant impact on the composition of the station's programming, revenues, expenses and operations. A typical affiliate of a major network receives the majority of each day's programming from the network. This programming, along with cash payments ("network compensation"), is provided to the affiliate by the network in exchange for a substantial majority of the advertising time sold during the airing of network programs. The network then sells this advertising time and retains the revenues. 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 acquiring programming to supplement programming supplied by the affiliated network, network affiliates compete primarily with other affiliates and independent stations in their markets. Cable systems generally do not compete with local stations for programming, although various national cable networks from time to time have acquired programs that would have otherwise been offered to local television stations. In addition, a television station may acquire programming through barter arrangements. Under barter arrangements, which are becoming increasingly popular with both network affiliates and independents, a national program distributor may receive advertising time in exchange for the programming it supplies, with the station paying a reduced fee for such programming.

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 of the revenues obtained therefrom. As a result of the smaller amount of programming provided by its network, an affiliate of UPN or WB must purchase or produce a greater amount of its programming, resulting in generally higher programming costs. These affiliate stations, however, retain a larger portion of the inventory of advertising time and the revenues obtained therefrom compared to stations affiliated with the major networks.

Through the 1970s, network television broadcasting enjoyed virtual dominance in viewership and television advertising revenues, because network-affiliated stations competed only with each other in most local markets. Beginning in the 1980s, this level of dominance began to change as the FCC authorized more local stations and marketplace choices expanded with the growth of independent stations and cable television services. See "-Federal Regulation of the Company's Business."

Cable television systems were first installed in significant numbers in the 1970s and were initially used to retransmit broadcast television programming to paying subscribers in areas with poor broadcast signal reception. In the aggregate, cable-originated programming has emerged as a significant competitor for viewers of broadcast television programming, although no single cable programming network regularly attains audience levels amounting to more than a small fraction of any single major broadcast network. The advertising share of cable networks increased during the 1970s and 1980s as a result of the growth in cable penetration (the percentage of television households which are connected to a cable system). Notwithstanding such increases in cable viewership and advertising, over-the-air broadcasting remains the dominant distribution system for mass market television advertising.

#### NEWSPAPER PUBLISHING

The Company owns and operates five publications comprising three newspapers and two shoppers, all located in the Southeast.

#### THE ALBANY HERALD

THE ALBANY HERALD, located in Albany, Georgia, is the only seven-day-a-week newspaper that serves southwestern Georgia. The Company changed THE ALBANY HERALD from an afternoon newspaper to a morning newspaper in 1993 and improved its graphics and layout. These changes enabled the Company to increase THE ALBANY HERALD's newsstand and subscription prices as well as its advertising rates, resulting in an increase of revenues from \$10.1 million in 1993 to \$13.5 million in 1995, a 33.8% increase. The Company intends to increase selectively the price and advertising rates of THE ALBANY HERALD in the future. The Albany market has four other daily newspapers with a limited circulation and market area.

THE ALBANY HERALD also publishes three other weekly editions in Georgia, THE LEE COUNTY HERALD, THE WORTH COUNTY HERALD and THE CALHOUN-CLAY HERALD, all of which provide regional news coverage. Other niche publications include (i) FARM AND PLANTATION, an agricultural paper, (ii) a monthly COUPON CLIPPER, (iii) a quarterly, direct mail coupon book called CASH CUTTERS, (iv) an annual dining guide and (v) an annual bridal book. The Company introduced these weeklies and other niche product publications in order to better utilize THE ALBANY HERALD's printing presses and infrastructure (such as sales and advertising). The printing press is approximately 19 years old and is in good working order. THE ALBANY HERALD cross-merchandises its publications, thereby increasing total revenues with only a small increase in related expenditures. The Company also seeks to increase THE ALBANY HERALD's circulation and revenues through its sponsorship of special events of local interest, such as bass fishing tournaments.

#### THE ROCKDALE CITIZEN AND THE GWINNETT DAILY POST

THE ROCKDALE CITIZEN and the GWINNETT DAILY POST are five-day-a-week newspapers that serve communities in the metro Atlanta area with complete local news, sports and lifestyles coverage together with national stories that directly impact their local communities.

THE ROCKDALE CITIZEN is located in Conyers, Georgia, the county seat of Rockdale County, which is 19 miles east of downtown Atlanta. Rockdale County's population is estimated to be 64,000 in 1996. Conyers is the site of the 1996 Olympic equestrian competition.

The GWINNETT DAILY POST, which was purchased by the Company in January 1995, is located north of Atlanta in Gwinnett County, one of the fastest growing areas in the nation. Gwinnett's population, which has more than doubled during each of the past two census periods, was estimated at 457,000 in 1995. In September 1995, the Company increased the frequency of publication of the GWINNETT DAILY POST from three to five days per week in an effort to increase circulation.

The Company's operating strategy with respect to THE ROCKDALE CITIZEN and the GWINNETT DAILY POST is to increase circulation by improving the print quality, increasing the local news content and increasing its telemarketing and promotional efforts. The Rockdale Citizen's printing press is approximately 24 years old and is in good working order. The Company has hired a new president of publishing for THE ROCKDALE CITIZEN and the GWINNETT DAILY POST in order to implement its operating strategy at these newspapers.

#### SOUTHWEST GEORGIA SHOPPER

The Southwest Georgia Shopper, Inc., prints and distributes two shoppers, which are direct mailed and rack distributed throughout north Florida and southwest Georgia. These two shoppers represent a consolidation of the seven shoppers that the Company purchased in 1994 and 1995. The Company believes that print quality is an important criterion to advertisers and consumers and, since their acquisition, the Company has accordingly improved the graphics of the shoppers.

#### INDUSTRY BACKGROUND

Newspaper publishing is the oldest segment of the media industry and, as a result of the focus on local news, newspapers in general, remain one of the leading media for local advertising. Newspaper advertising revenues are cyclical and have generally been affected by changes in national and regional economic conditions. Financial instability in the retail industry, including bankruptcies of large retailers and consolidations among large retail chains has recently resulted in reduced retail advertising expenditures. Classified advertising, which makes up approximately one-third of newspaper advertising expenditures, can be affected by an economic slowdown and its effect on employment, real estate transactions and automotive sales. However, growth in housing starts and automotive sales, although cyclical in nature, generally provide continued growth in newspaper advertising expenditures.

#### PAGERS AND PAGING SERVICES

##### THE PAGING BUSINESS

The paging business, which is a part of the Phipps Business, is based in Tallahassee, Florida and operates in Columbus, Macon, Albany and Valdosta, Georgia, in Dothan, Alabama, in Tallahassee and Panama City, Florida and in certain contiguous areas. In 1995 the population of this geographic coverage area was approximately 2.3 million. In June 1996, the Company's paging business had approximately 44,000 units in service, representing a penetration rate of approximately 1.9%.

The Company's paging system operates by connecting a telephone call placed to a local telephone number with a local paging switch. The paging switch processes a caller's information and sends the information to a link transmitter which relays the processed information to paging transmitters, which in turn alert an individual pager by means of a coded radio signal. This process provides service to a "local coverage area." To enhance coverage further to its customer base, all of the Company's local coverage areas are interconnected or networked, providing for "wide area coverage" or "network coverage." A pager's coverage area is programmable and can be customized to include or exclude any particular paging switch and its respective geographic coverage area, thereby allowing the Company's paging customers a choice of coverage areas. In addition, the Company is able to network with other paging companies which share the Company's paging frequencies in other markets, by means of an industry standard network paging protocol, in order to increase the geographic coverage area in which the Company's customers can receive paging service.

A subscriber to the Company's paging services either owns a pager, thereby paying solely for the use of the Company's paging services, or leases a pager, thereby paying a periodic charge for both the pager and the paging services. Of the Company's pagers currently in service, approximately 72% are owned and maintained by subscribers ("COAM") with the remainder being leased. In recent years, prices for pagers have

fallen considerably, and thus there has been a trend toward subscriber ownership of pagers, allowing the Company to maintain lower inventory and fixed asset levels. COAM customers historically stay on service longer, thus enhancing the stability of the subscriber base and earnings. The Company is focusing its marketing efforts on increasing its base of COAM users. The Company purchases all of its pagers from two suppliers, Panasonic and Motorola, with Motorola supplying a majority of such pagers. Due to the high demand from the Company's customers for Motorola pagers, the Company believes that its ability to offer Motorola pagers is important to its business.

The Company's goal is to increase the number of pagers in service, revenues and cash flow from operations by implementing a plan that focuses on improved operating methods and controls and innovative marketing programs. The Company's paging business has grown in recent years by: (i) increasing the number of business customers; (ii) expanding its resale program; (iii) increasing its retail operations; and (iv) increasing geographical coverage.

#### INDUSTRY BACKGROUND.

Paging is a method of wireless communication which uses an assigned radio frequency to contact a paging subscriber within a designated service area. A subscriber carries a pager which receives messages by the broadcast of a radio signal. To contact a subscriber, a message is usually sent by placing a telephone call to the subscriber's designated telephone number. The telephone call is received by an electronic paging switch which generates a signal that is sent to radio transmitters in the subscriber's service area. The transmitters broadcast a coded signal that is unique to the pager carried by the subscriber and alerts the subscriber through a tone or vibration that there is a voice, numeric, alphanumeric or other message. Depending upon the topography of the service area, the operating radius of a radio transmitter typically ranges from three to 20 miles.

Three tiers of carriers have emerged in the paging industry: (i) large nationwide providers serving multiple markets throughout the United States; (ii) regional carriers, like the Company's paging business, which operate in regional markets such as several contiguous states in one geographic region of the United States; and (iii) small, single market operators. The Company believes that the paging industry is undergoing consolidation.

The paging industry has traditionally marketed its services through direct distribution by sales representatives. In recent years, additional channels of distribution have evolved, including: (i) carrier-operated retail stores; (ii) resellers, who purchase paging services on a wholesale basis from carriers and resell those services on a retail basis to their own customers; (iii) independent sales agents who solicit customers for carriers and are compensated on a commission basis; and (iv) retail outlets that often sell a variety of merchandise, including pagers and other telecommunications equipment.

#### SATELLITE BROADCASTING

The Company's satellite broadcasting business provides broadcast and production services through mobile and fixed production units as well as C-band and Ku-band satellite transmission facilities. Clients include The Walt Disney Company, The Golf Channel, USA Network, Turner Broadcasting System, CBS, ABC, PGA Tour Productions and The Children's Miracle Network.

#### ADDITIONAL INFORMATION ON BUSINESS SEGMENTS

Reference is made to Note J of Notes to Consolidated Financial Statements of the Company for additional information regarding business segments. Reference is made to Note 11 of Notes to Financial Statements of the Phipps Business for additional information regarding business segments.

#### COMPETITION

##### TELEVISION INDUSTRY

Competition in the television industry exists on several levels: competition for audience, competition for programming (including news) and competition for advertisers. Additional factors that are material to a television station's competitive position include signal coverage and assigned frequency. The broadcasting industry is faced continually with technological change and innovation, the possible rise in popularity of

competing entertainment and communications media and governmental restrictions or actions of federal regulatory bodies, including the FCC and the Federal Trade Commission, any of which could have a material effect on the Company's operations. In addition, since early 1994, there have been a number of network affiliation changes in many of the top 100 television markets. As a result, the major networks have sought longer terms in their affiliation agreements with local stations and generally have increased the compensation payable to the local stations in return for such longer term agreements. During the same time period, the rate of change of ownership of local television stations has increased over past periods.

AUDIENCE. Stations compete for audience on the basis of program popularity, which has a direct effect on advertising rates. A substantial portion of the daily programming on each of the Company's stations is supplied by the network with which each station is affiliated. During those periods, the stations are totally dependent upon the performance of the network programs to attract viewers. There can be no assurance that such programming will achieve or maintain satisfactory viewership levels in the future. Non-network time periods are programmed by the station with a combination of self-produced news, public affairs and other entertainment programming, including news and syndicated programs purchased for cash, cash and barter, or barter only.

Independent stations, whose number has increased significantly over the past decade, have also emerged as viable competitors for television viewership shares. In addition, UPN and WB have been launched recently as new television networks. The Company is unable to predict the effect, if any, that such networks will have on the future results of the Company's operations.

In addition, the development of methods of television transmission of video programming other than over-the-air broadcasting, and in particular cable television, 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. Through the 1970s, television broadcasting enjoyed virtual dominance in viewership and television advertising revenues because network-affiliated stations competed only with each other in most local markets. Although cable television systems initially retransmitted broadcast television programming to paying subscribers in areas with poor broadcast signal reception, significant increases in cable television penetration in areas that did not have signal reception problems occurred throughout the 1970s and 1980s. As the technology of satellite program delivery to cable systems advanced in the late 1970s, development of programming for cable television accelerated dramatically, resulting in the emergence of multiple, national-scale program alternatives and the rapid expansion of cable television and higher subscriber growth rates. Historically, cable operators have not sought to compete with broadcast stations for a share of the local news audience. Recently, however, certain cable operators have elected to compete for such audiences and the increased competition could have an adverse effect on the Company's advertising revenues.

Other sources of competition include home entertainment systems (including video cassette recorder and playback systems, video discs and television game devices), "wireless cable" services, satellite master antenna television systems, low power television stations, television translator stations and, more recently, DBS video distribution services, which transmit programming directly to homes equipped with special receiving antennas, and video signals delivered over telephone lines. Public broadcasting outlets in most communities compete with commercial television stations for audience but not for advertising dollars, although this may change as the United States Congress considers alternative means for the support of public television.

Further advances in technology may increase competition for household audiences and advertisers. Video compression techniques are expected to reduce the bandwidth required for television signal transmission. These compression techniques, as well as other technological developments, are applicable to all video delivery systems, including over-the-air broadcasting, and have the potential to provide vastly expanded programming to highly targeted audiences. Reduction in the cost of creating additional channel capacity could lower entry barriers for new channels and encourage the development of increasingly specialized "niche" programming. This ability to reach very narrowly defined audiences is expected to alter the

competitive dynamics for advertising expenditures. In addition, competition in the television industry in the future may come from interactive video and information and data services that may be delivered by commercial television stations, cable television, DBS, multipoint distribution systems, multichannel multipoint distribution systems or other video delivery systems. The Company is unable to predict the effect that these or other technological changes will have on the broadcast television industry or the future results of the Company's operations.

**PROGRAMMING.** Competition for programming involves negotiating with national program distributors or syndicators 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 ROSEANNE) and first-run product (such as ENTERTAINMENT TONIGHT). Cable systems generally do not compete with local stations for programming, although various national cable networks from time to time have acquired programs that would have otherwise been offered to local television stations. Competition exists for exclusive news stories and features as well.

**ADVERTISING.** Advertising rates are based upon the size of the market in which the station operates, a program's popularity among the viewers that an advertiser wishes to attract, the number of advertisers competing for the available time, the demographic makeup of the market served by the station, the availability of alternative advertising media in the market area, aggressive and knowledgeable sales forces and the development of projects, features and programs that tie advertiser messages to programming. Advertising revenues comprise the primary source of revenues for the Company's stations. The Company's stations compete for such advertising revenues with other television stations and other media in their respective markets. Typically, independent stations achieve a greater proportion of the television market advertising revenues than network affiliated stations relative to their share of the market's audience, because independent stations have greater amounts of available advertising time. The stations also compete for advertising revenues with other media, such as newspapers, radio stations, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail and local cable systems. Competition for advertising dollars in the broadcasting industry occurs primarily within individual markets.

#### NEWSPAPER INDUSTRY

The Company's newspapers compete for advertisers with a number of other media outlets, including magazines, radio and television, as well as other newspapers, which also compete for readers with the Company's publications. Many of the Company's newspaper competitors are significantly larger than the Company. The Company attempts to differentiate its publications from other newspapers by focusing on local news and local sports coverage in order to compete with its larger competitors. The Company also seeks to establish its publications as the local newspaper by sponsoring special events of particular community interest.

#### PAGING INDUSTRY

The paging industry is highly competitive. Companies in the industry compete on the basis of price, coverage area offered to subscribers, available services offered in addition to basic numeric or tone paging, transmission quality, system reliability and customer service. The Company competes by maintaining competitive pricing of its product and service offerings, by providing high-quality, reliable transmission networks and by furnishing subscribers a superior level of customer service.

The Company's primary competitors include those paging companies that provide wireless service in the same geographic areas in which the Company operates. The Company experiences competition from one or more competitors in all locations in which it operates. Some of the Company's competitors have greater financial and other resources than the Company.

The Company's paging services also compete with other wireless communications services such as cellular service. The typical customer uses paging as a low cost wireless communications alternative either on a stand-alone basis or in conjunction with cellular services. Future technological developments in the wireless communications industry and enhancements of current technology, however, could create new products and services, such as personal communications services and mobile satellite services, which are

competitive with the paging services currently offered by the Company. Recent and proposed regulatory changes by the FCC are aimed at encouraging such technological developments and new services and promoting competition. There can be no assurance that the Company's paging business would not be adversely affected by such technological developments or regulatory changes.

#### NETWORK AFFILIATION OF THE STATIONS

Each of the Company's stations is affiliated with a major network pursuant to an affiliation agreement. Each affiliation agreement provides the affiliated station with the right to broadcast all programs transmitted by the network with which the station is affiliated. In return, the network has the right to sell a substantial majority of the advertising time during such broadcasts. In exchange for every hour that a station elects to broadcast network programming, the network pays the station a specific network compensation payment which 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. The NBC affiliation agreements for WALB and WJHG are renewed automatically every five years on September 1 unless the station notifies NBC otherwise. The CBS affiliation agreements for WKYT, WYMT, WRDW, WCTV and WKXT expire on December 31, 2004, December 31, 2004, March 31, 2005, December 31, 1999, and December 31, 1999, respectively.

#### FEDERAL REGULATION OF THE COMPANY'S BUSINESS

##### TELEVISION BROADCASTING

**EXISTING REGULATION.** Television broadcasting is subject to the jurisdiction of the FCC under the Communications Act and the Telecommunications Act. The Communications Act prohibits the operation of television broadcasting stations except under a license issued by the FCC and empowers the FCC, among other things, to issue, revoke and modify broadcasting licenses, determine the locations of stations, regulate the equipment used by stations, adopt regulations to carry out the provisions of the Communications Act and the Telecommunications Act and impose penalties for violation of such regulations. The Communications Act prohibits the assignment of a license or the transfer of control of a licensee without prior approval of the FCC.

**LICENSE GRANT AND RENEWAL.** Television broadcasting licenses generally are granted or renewed for a period of five years; recently extended to eight years by the Telecommunications Act, but may be renewed for a shorter period upon a finding by the FCC that the "public interest, convenience, and necessity" would be served thereby. The broadcast licenses for WALB, WJHG, WKYT, WYMT, WRDW, WCTV and WKXT are effective until April 1, 1997, February 1, 1997, August 1, 1997, August 1, 1997, April 1, 1997, February 1, 1997 and August 1, 1997, respectively. The Telecommunications Act requires a broadcast license to be renewed if the FCC finds that: (i) the station has served the public interest, convenience and necessity; (ii) there have been no serious violations of either the Telecommunications Act or the FCC's rules and regulations by the licensee; and (iii) there have been no other violations, which taken together would constitute a pattern of abuse. At the time an application is made for renewal of a television license, 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 lesser term. The FCC will not consider competing applications contemporaneously with a renewal application. Only after denying a renewal application can the FCC accept and consider competing applications for the license. Although in the vast majority of cases broadcast licenses are renewed by the FCC even when petitions to deny or competing applications are filed against broadcast license renewal applications, there can be no assurance that the Company's stations' licenses will be renewed. The Company is not aware of any facts or circumstances that could prevent the renewal of the licenses for its stations at the end of their respective license terms.

**MULTIPLE OWNERSHIP RESTRICTIONS.** Currently, the FCC has rules that limit the ability of individuals and entities to own or have an ownership interest above a certain level (an "attributable" interest, as defined more fully below) in broadcast stations, as well as other mass media entities. The current rules limit the

number of radio and television stations that may be owned both on a national and a local basis. On a national basis, the rules preclude any individual or entity from having an attributable interest in more than 12 television stations. Moreover, the aggregate audience reach of co-owned television stations may not exceed 25% of all United States households. An individual or entity may hold an attributable interest in up to 14 television stations (or stations with an aggregate audience reach of 30% of all United States households) if at least two of the stations are controlled by a member of an ethnic minority. The Telecommunications Act directs the FCC to eliminate the restriction on the number of television stations which may be owned or controlled nationally and to increase the national audience reach limitation for television stations to 35%.

On a local basis, FCC rules currently allow an individual or entity to have an attributable interest in only one television station in a market. In addition, FCC rules and the Telecommunications Act generally prohibit 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. Proposals currently before the FCC could substantially alter these standards. For example, in a recently initiated rulemaking proceeding, the FCC suggested narrowing the geographic scope of the local television cross-ownership rule (the so-called "duopoly rule") from Grade B to Grade A contours and possibly permitting some two-station combinations in certain markets. The FCC has also proposed eliminating the TV/radio cross-ownership restriction (the so-called "one-to-a-market" rule) entirely or at least exempting larger markets. In addition, the FCC is seeking comment on issues of control and attribution with respect to local marketing agreements entered into by television stations. It is unlikely that this rulemaking will be concluded until late 1996 or later, and there can be no assurance that any of these rules will be changed or what will be the effect of any such change. The Telecommunications Act expressly does not prohibit any local marketing agreements in compliance with FCC regulations. Furthermore, the Telecommunications Act directs the FCC to conduct a rulemaking proceeding to determine whether restricting ownership of more than one television station in the same area should be retained, modified or eliminated. It is the intent of Congress that if the FCC revises the multiple ownership rules, it should permit co-located VHF-VHF combinations only in compelling circumstances, where competition and diversity will not be harmed.

The Telecommunications Act also directs the FCC to extend its one-to-a-market waiver policy from the top 25 to any of the top 50 markets. In addition, the Telecommunications Act directs the FCC to permit a television station to affiliate with two or more networks unless such dual or multiple networks are composed of (i) two or more of the four existing networks (ABC, CBS, NBC or Fox) or, (ii) any of the four existing networks and one of the two emerging networks (UPN or WBN). The Company believes that Congress does not intend for these limitations to apply if such networks are not operated simultaneously, or if there is no substantial overlap in the territory served by the group of stations comprising each of such networks. The Telecommunications Act also directs the FCC to revise its rules to permit cross-ownership interests between a broadcast network and a cable system. The Telecommunications Act further authorizes the FCC to consider revising its rules to permit common ownership of co-located broadcast stations and cable systems.

Expansion of the Company's broadcast operations in particular areas and nationwide will continue to be subject to the FCC's ownership rules and any changes the FCC or Congress may adopt. Any relaxation of the FCC's ownership rules may increase the level of competition in one or more of the markets in which the Company's stations are located, particularly to the extent that the Company's competitors may have greater resources and thereby be in a better position to capitalize on such changes.

Under the FCC's ownership rules, a direct or indirect purchaser of certain types of securities of the Company (including the Class B Common Stock offered hereby) 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 the Company 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 stockholders 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 which exert no control or influence over a licensee may own up to 10% of the voting power of the outstanding common stock before attribution occurs. Under current FCC regulations, debt instruments, non-voting stock, certain 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) and voting stock held by minority stockholders in cases in which there is a single majority stockholder generally are not subject to attribution. The FCC's cross-interest policy, which precludes an individual or entity from having a "meaningful" (even though not "attributable") interest in one media property and an "attributable" interest in a broadcast, cable or newspaper property in the same area, may be invoked in certain circumstances to reach interests not expressly covered by the multiple ownership rules.

In January 1995, the FCC released a NPRM designed to permit a "thorough review of [its] broadcast media attribution rules." Among the issues on which comment was sought are (i) whether to change the voting stock attribution benchmarks from five percent to 10% and, for passive investors, from 10% to 20%; (ii) whether there are any circumstances in which non-voting stock interests, which are currently considered non-attributable, should be considered attributable; (iii) whether the FCC should eliminate its single majority shareholder exception (pursuant to which voting interests in excess of five percent are not considered cognizable if a single majority shareholder owns more than 50% of the voting power); (iv) whether to relax insulation standards for business development companies and other widely-held limited partnerships; (v) how to treat limited liability companies and other new business forms for attribution purposes; (vi) whether to eliminate or codify the cross-interest policy; and, (vii) whether to adopt a new policy which would consider whether multiple "cross interests" or other significant business relationships (such as time brokerage agreements, debt relationships or holdings of nonattributable interests), which individually do not raise concerns, raise issues with respect to diversity and competition. It is unlikely that this inquiry will be concluded until late 1996 at the earliest and there can be no assurance that any of these standards will be changed. Should the attribution rules be changed, the Company is unable to predict what, if any, effect it would have on the Company or its activities. To the best of the Company's knowledge, no officer, director or five percent stockholder of the Company currently holds an interest in another television station, radio station, cable television system or daily newspaper that is inconsistent with the FCC's ownership rules and policies or with ownership by the Company of its stations.

**ALIEN OWNERSHIP RESTRICTIONS.** The Communications Act restricts the ability of foreign entities 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. Non-citizens, collectively, may directly or indirectly own or vote up to 20% of the capital stock of a licensee but are prohibited from serving as officers or directors of such licensee. In addition, a broadcast license may not be granted to or held by any corporation that is controlled, directly or indirectly, by any other corporation (i) that has a non-citizen as an officer, (ii) more than one-fourth of whose directors are non-citizens or (iii) more than one-fourth of whose capital stock is owned or voted by non-citizens or their representatives or by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds that the public interest will be served by the refusal or revocation of such license. The Company has been advised that the FCC staff has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such corporation and the FCC has made such an affirmative public interest finding before a broadcast license may be granted to or held by any such corporation and the FCC has made such an affirmative finding only in limited circumstances. The Company, which serves as a holding company for wholly-owned subsidiaries that are licensees for its stations, therefore may be restricted from having (i) more than one-fourth of its stock owned or voted directly or indirectly by non-citizens, foreign governments, representatives of non-citizens or foreign governments, or foreign corporations; (ii) an officer who is a non-citizen; or (iii) more than one-fourth of its board of directors consisting of non-citizens.

**RECENT DEVELOPMENTS.** The FCC recently decided to eliminate the prime time access rule ("PTAR"), effective August 30, 1996. PTAR currently limits a station's ability to broadcast network programming (including syndicated programming previously broadcast over a network) during prime time hours. The elimination of PTAR could increase the amount of network programming broadcast over a station affiliated with ABC, NBC, CBS or Fox. Such elimination also could result in (i) an increase in the compensation paid by the network (due to the additional prime time during which network programming could be aired by a

network-affiliated station) and (ii) increased competition for syndicated network programming that previously was unavailable for broadcast by network affiliates during prime time. The FCC also recently announced that it was rescinding its remaining financial interest and syndication ("fin\syn") rules. The original rules, first adopted in 1970, severely restricted the ability of a network to obtain financial interests in, or participate in syndication of, prime-time entertainment programming created by independent producers for airing during the networks' evening schedules. The FCC previously lifted the financial interest rules and restraints on foreign syndication.

Congress has recently enacted legislation and the FCC currently has under consideration or is implementing new regulations and policies regarding a wide variety of matters that could affect, directly or indirectly, the operation and ownership of the Company's broadcast properties. In addition to the proposed changes noted above, such matters include, for example, the license renewal process (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 rates, potential advertising restrictions on the advertising of certain products (beer and wine, for example), the rules and policies to be applied in enforcing the FCC's equal employment opportunity regulations, reinstatement of the Fairness Doctrine (which requires broadcasters airing programming concerning controversial issues of public importance to afford a reasonable opportunity for the expression of contrasting viewpoints), 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). Other matters that could affect the Company's broadcast properties include technological innovations and developments generally affecting competition in the mass communications industry, such as the recent initiation of direct broadcast satellite service, and the continued establishment of wireless cable systems and low power television stations.

The FCC presently is seeking comment on its policies designed to increase minority ownership of mass media facilities. Congress also recently enacted legislation that eliminated the minority tax certificate program of the FCC, which gave favorable tax treatment to entities selling broadcast stations to entities controlled by an ethnic minority. In addition, a recent Supreme Court decision has cast doubt upon the continued validity of many of the congressional programs designed to increase minority ownership of mass media facilities.

**DISTRIBUTION OF VIDEO SERVICES BY TELEPHONE COMPANIES.** Recent actions by the FCC, Congress and the courts all presage significant future involvement in the provision of video services by telephone companies. The Company cannot predict either the timing or the extent of such involvement.

**THE 1992 CABLE ACT.** On October 5, 1992, Congress enacted the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act"). The FCC began implementing the requirements of the 1992 Cable Act in 1993 and final implementation proceedings remain pending regarding certain of the rules and regulations previously adopted. Certain statutory provisions, such as signal carriage, retransmission consent and equal employment opportunity requirements, have a direct effect on television broadcasting. Other provisions are focused exclusively on the regulation of cable television but can still be expected to have an indirect effect on the Company because of the competition between over-the-air television stations and cable systems.

The signal carriage, or "must carry," provisions of the 1992 Cable Act require cable operators to carry the signals of local commercial and non-commercial television stations and certain low power television stations. Systems with 12 or fewer usable activated channels and more than 300 subscribers must carry the signals of at least three local commercial television stations. 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 of such system. 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 most cases 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 "super stations" delivered via satellite.

Under rules adopted to implement these "must carry" and retransmission consent provisions, local television stations were required to make an initial election of "must carry" or retransmission consent by June 17, 1993. Stations that failed to elect were deemed to have elected carriage under the "must carry" provisions. Other issues addressed in the FCC rules were market designations, the scope of retransmission consent and procedural requirements for implementing the signal carriage provisions. Each of the Company's stations elected "must carry" status on certain cable systems in its DMA. This election entitles the Company's stations to carriage on those systems until at least December 31, 1996. In certain other situations, the Company's stations entered into "retransmission consent" agreements with cable systems. The Company is unable to predict whether or not these retransmission consent agreements will be extended and, if so, on what terms.

On April 8, 1993, a special three-judge panel of the U.S. District Court for the District of Columbia upheld the constitutionality of the "must carry" provisions of the 1992 Cable Act. However, on June 27, 1994, the United States Supreme Court in a 5-4 decision vacated the lower court's judgment and remanded the case to the District Court for further proceedings. Although the Supreme Court found the "must carry" rules to be content-neutral and supported by legitimate governmental interests under appropriate constitutional tests, it also found that genuine issues of material fact still remained that must be resolved in a more detailed evidentiary record. On December 12, 1995, the United States District Court for the District of Columbia upheld the "must carry" requirements compelling cable systems to carry broadcast signals. The cable industry plans to appeal this decision. In the meantime, however, the FCC's new "must carry" regulations implementing the 1992 Cable Act remain in effect.

The 1992 Cable Act also codified the FCC's basic equal employment opportunity ("EEO") rules and the use of certain EEO reporting forms currently filed by television broadcast stations. In addition, pursuant to the 1992 Cable Act's requirements, the FCC has adopted new rules providing for a review of the EEO performance of each television station at the mid-point of its license term (in addition to renewal time). Such a review will give the FCC an opportunity to evaluate whether the licensee is in compliance with the FCC's processing criteria and notify the licensee of any deficiency in its employment profile. Among the other rulemaking proceedings conducted by the FCC to implement provisions of the 1992 Cable Act have been those concerning cable rate regulation, cable technical standards, cable multiple ownership limits and competitive access to programming.

Among other provisions, the Telecommunications Act redefines the term "cable system" as "a facility that serves subscribers without using any public right of way." It eliminates a single subscriber's ability to initiate a rate complaint proceeding at the FCC and allows a cable operator to move any service off the basic tier in its discretion, other than local broadcast signals and access channels required to be carried on the basic tier.

**ADVANCED TELEVISION SERVICE.** The FCC has proposed the adoption of rules for implementing advanced television ("ATV") service in the United States. Implementation of digital ATV 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 ("HDTV"), simultaneous broadcasting of multiple programs of standard definition television ("SDTV") and data broadcasting.

The FCC must adopt ATV service rules and a table of ATV allotments before broadcasters can provide these services enabled by the new technology. On July 28, 1995, the FCC announced the issuance of a NPRM to invite comment on a broad range of issues related to the implementation of ATV, particularly the transition to digital broadcasting. The FCC announced that the anticipated role of digital broadcasting will cause it to revisit certain decisions made in an earlier order. The FCC also announced that broadcasters will

be allowed greater flexibility in responding to market demand by transmitting a mix of HDTV, SDTV and perhaps other services. The FCC also stated that the NPRM would be followed by two additional proceedings and that a Final Report and Order which will launch the ATV system is anticipated in 1996.

The Telecommunications Act directs the FCC, if it issues licenses for ATV, to limit the initial eligibility for such licenses to incumbent broadcast licensees. It also authorizes the FCC to adopt regulations that would permit broadcasters to use such spectrum for ancillary or supplementary services. It is expected that the FCC will assign all existing television licensees a second channel on which to provide ATV simultaneously with their current NTSC service. It is possible after a period of years that broadcasters would be required to cease NTSC operations, return the NTSC channel to the FCC, and broadcast only with the newer digital technology. Some members of Congress have advocated authorizing the FCC to auction either NTSC or ATV channels; however, the Telecommunications Act allows the FCC to determine when such licenses will be returned and how to allocate returned spectrum.

Under certain circumstances, conversion to ATV operations would 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. Due to additional equipment costs, implementation of ATV will impose some near-term financial burdens on television stations providing the service. At the same time, there is a potential for increased revenues to be derived from ATV. Although the Company believes the FCC will authorize ATV in the United States, the Company cannot predict precisely when or under what conditions such authorization might be given, when NTSC operations must cease, or the overall effect the transition to ATV might have on the Company's business.

**DIRECT BROADCASTING SATELLITE SYSTEMS.** The FCC has authorized DBS, a service which provides video programming via satellite directly to home subscribers. Local broadcast stations and broadcast network programming are not carried on DBS systems. Proposals recently advanced in the Telecommunications Act include a prohibition on restrictions that inhibit a viewer's ability to receive video programming through DBS services. The FCC has exclusive jurisdiction over the regulation of DBS service. The Company cannot predict the impact of this new service upon the Company's business.

#### PAGING

**FEDERAL REGULATION.** The Company's paging operations are subject to regulation by the FCC under the Communications Act. The FCC has granted the Company licenses to use the radio frequencies necessary to conduct its paging operations. Licenses issued by the FCC to the Company set forth the technical parameters, such as signal strength and tower height, under which the Company is authorized to use those frequencies.

**LICENSE GRANT AND RENEWAL.** The FCC licenses granted to the Company are for varying terms of up to 10 years, at the end of which renewal applications must be approved by the FCC. The Company currently has 23 FCC licenses for its paging business. Five of such licenses will expire in 1997, 12 will expire in 1999, four will expire in 2000, one will expire in 2001 and one is currently awaiting renewal. In the past, paging license renewal applications generally have been granted by the FCC in most cases upon a demonstration of compliance with FCC regulations and adequate service to the public. Although the Company is unaware of any circumstances which could prevent the grant of renewal applications, no assurance can be given that any of the Company's licenses will be free of competing applications or will be renewed by the FCC. Furthermore, the FCC has the authority to restrict the operation of licensed facilities or to revoke or modify licenses. None of the Company's licenses has ever been revoked or modified involuntarily.

The FCC has enacted regulations regarding auctions for the award of radio spectrum licenses. Pursuant to such rules, the FCC at any time may require auctions for new or existing services prior to the award of any license. Accordingly, there can be no assurance that the Company will be able to procure additional frequencies, or to expand existing paging networks operating on frequencies for which the Company is currently licensed into new geographical areas. In March 1994, the FCC adopted rules pursuant to which the FCC will utilize competitive bidding to select Commercial Mobile Radio Service ("CMRS") licensees when more than one entity has filed a timely application for the same license. These competitive bidding

rules could require that FCC licensees make significant investments in order to obtain spectrum. While the FCC has not yet applied these rules to paging licenses, it could do so at any time. The Company also believes that this rule change may increase the number of competitors which have significant financial resources and may provide an added incentive to build out their systems quickly.

**RECENT DEVELOPMENTS.** On February 8, 1996, the FCC announced a temporary cessation in the acceptance of applications for new paging stations, and placed certain restrictions on the extent to which current licensees can expand into new territories on an existing channel. The FCC has initiated an expedited comment period in which it will consider whether these interim processing procedures should be relaxed. The FCC is also considering whether CMRS operators should be obligated to interconnect their systems with others and be prohibited from placing restrictions on the resale of their services.

The FCC recently adopted rules generally revising the classification of the services offered by paging companies. Traditionally, paging companies have been classified either as Private Common Carriers or Private Carrier Paging Operators or as resellers. Pursuant to the FCC's recently adopted rules, which aim to reduce the disparities in the regulatory treatment of similar mobile services, the Company's paging services are or will be classified as CMRS. The Company believes that such parity will remove certain regulatory advantages which private carrier paging competitors have enjoyed under the previous classification scheme, although private carrier paging companies will be subject to a transition period through August 1996 before these new rules are applicable.

The recently enacted Telecommunications Act may affect the Company's paging business. Some aspects of the new statute could have beneficial effect on the Company's paging business. For example, proposed federal guidelines regarding antenna siting issues may remove local and state barriers to the construction of communications facilities, and efforts to increase competition in the local exchange and interexchange industries may reduce the cost to the Company of acquiring necessary communications services and facilities. On the other hand, some provisions relating to common carrier interconnection, telephone number portability, equal access, the assignment of new area codes, resale requirements and auction authority may place additional burdens upon the Company or subject the Company to increased competition.

In addition to regulation by the FCC, paging systems are subject to certain Federal Aviation Administration regulations with respect to the height, location, construction, marking and lighting of towers and antennas.

**STATE REGULATION.** As a result of the enactment by Congress of the Omnibus Budget Reconciliation Act of 1993, the authority of the states to regulate the Company's paging operations was severely curtailed as of August 1994. At this time the Company is not aware of any proposed state legislation or regulations which would have a material adverse impact on the Company's paging business. There can be no assurance, however, that such legislation or regulations will not be passed in the future.

#### EMPLOYEES

As of March 1996, the Company (excluding the Phipps Business) had 740 full-time employees, of which 450 were employees of the Company's stations, 280 were employees of the Company's publications and 10 were corporate and administrative personnel. None of the Company's employees are represented by unions. The Company believes that its relations with its employees are satisfactory.

#### PROPERTIES

The Company's principal executive offices are located at 126 North Washington Street, Albany, Georgia 31701, which is owned by The Albany Herald Publishing Company, Inc. (the "Albany Herald"). The Albany Herald also owns the adjacent building on the corner of Pine Avenue in Albany. The building located at 126 North Washington Street contains administration, news and advertising offices and the adjacent buildings located on Pine Avenue contain the printing press and production facilities, as well as paper storage and maintenance. These buildings contain approximately 83,000 square feet. In addition, the parking lot for the employees and customers of THE ALBANY HERALD is located immediately across Pine Avenue from the administration offices.

The types of properties required to support television stations include offices, studios, transmitter sites and antenna sites. The types of properties required to support newspaper publishing include offices, facilities for the printing press and production and storage. 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 following table sets forth certain information regarding the Company's properties.

TELEVISION BROADCASTING

STATION/APPROXIMATE PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE	EXPIRATION OF LEASE
WKYT				
Lexington, KY	Office, studio and transmission tower site	Owned	34,500 sq. ft. building on 20 acres	-
WYMT				
Hazard, KY	Office and studio	Owned	21,200 sq. ft. building	-
Hazard, KY	Transmission tower site	Leased	-	June 2015
Hazard, KY	Transmitter building and improvements	Owned	1,248 sq. ft.	-
WRDW				
North Augusta, SC	Office and studio	Owned	17,000 sq. ft.	-
	Transmission tower site	Owned	143 acres	-
WALB				
Albany, GA	Office and studio	Owned	13,700 sq. ft.	-
Albany, GA	Transmission tower site	Owned	21 acres	-
WJHG				
Panama City, FL	Office and studio	Owned	14,000 sq. ft.	-
Youngstown, FL	Transmission tower site	Owned	17 acres	-
WKXT				
Knoxville, TN	Office and studio	Owned	18,300 sq. ft.	--
Knoxville, TN	Transmission tower site	Leased	Tower space	Dec. 1998
WCTV				
Tallahassee, FL	Office and studio	Leased	22,000 sq. ft.	Dec. 2014
Metcalfe, GA	Transmission tower site	Owned	182 acres	--

PUBLISHING

COMPANY/PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE	EXPIRATION OF LEASE
The Albany Herald Publishing Company, Inc.	See above	See above	See above	See above
The Rockdale Citizen Publishing Company Conyers, GA	Offices, printing press and production facility for THE ROCKDALE CITIZEN	Owned	20,000 sq. ft.	--
Lawrenceville, GA	Offices and production facilities of the GWINNETT DAILY POST	Leased	11,000 sq. ft.	Nov. 1997
The Southwest Georgia Shoppers Inc. Tallahassee, FL	Offices	Owned	5,500 sq. ft.	--

PAGING

COMPANY/PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE	EXPIRATION OF LEASE
Albany GA	Office	Leased	800 sq. ft.	March 1996
Columbus, GA	Office	Leased	1,000 sq. ft.	July 1997
Dothan, AL	Office	Leased	800 sq. ft.	Feb. 1995
Macon, GA	Office	Leased	1,260 sq. ft.	July 1998
Tallahassee, GA	Office	Leased	2,400 sq. ft.	Month to month
Thomasville, GA	Office	Leased	300 sq. ft.	Month to month
Valdosta, GA	Office	Leased	400 sq. ft.	May 1997
Panama City, FL	Office	Leased	1,050 sq. ft.	Jan. 1998

LEGAL PROCEEDINGS

The Company is not party to any legal proceedings in which an adverse outcome would have a material adverse effect, either individually or in the aggregate, upon the Company.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information concerning each of the directors and executive officers of the Company and its subsidiaries.

NAME	AGE	TITLE
Ralph W. Gabbard*	50	Director and President of the Company
William A. Fielder III	37	Vice President and Chief Financial Officer
Sabra H. Cowart	29	Controller, Chief Accounting Officer and Assistant Secretary
Robert A. Beizer	56	Vice President for Law and Development and Secretary
Thomas J. Stultz	44	Vice President
Joseph A. Carriere	62	Vice President-Corporate Sales
William E. Mayher III*	56	Chairman of the Board of Directors
Richard L. Boger*+	49	Director
Hilton H. Howell, Jr.**	34	Director
Howell W. Newton**	49	Director
Hugh Norton	63	Director
Robert S. Prather, Jr.*+	51	Director
J. Mack Robinson*+	72	Director

- \* Member of the Executive Committee
- \*\* Member of the Audit Committee
- + Member of the Management Personnel Committee

MR. GABBARD has been President and director of the Company since December 1, 1995. He served as a Vice President of the Company and as President and Chief Operating Officer of the Company's broadcast operations from September 2, 1994 until his election as President of the Company. He was president and general manager of Kentucky Central Television, Inc., the former owner of WKYT and WYMT, from 1982 to 1994. Mr. Gabbard is Chairman of the National Association of Broadcasters Television Board of Directors and Chairman of the CBS Affiliates Advisory Board.

MR. FIELDER has been a Vice President and the Chief Financial Officer of the Company since August 1993. From April 1991 until his appointment as Chief Financial Officer, he was Controller of the Company. Prior to being appointed controller of the Company in April 1991, he was employed by Ernst & Young LLP, an accounting firm, which are the independent auditors of the Company.

MS. COWART has been Controller and Chief Accounting Officer of the Company since April 1995. In February 1996 Ms. Cowart was appointed Assistant Secretary of the Company. From March 1994 until her appointment as Controller and Chief Accounting Officer, Ms. Cowart was the corporate accounting manager for the Company. Prior to joining the Company, she was employed by Deloitte & Touche LLP, an accounting firm, from 1989 to 1994.

MR. BEIZER has been Vice President for Law and Development and Secretary of the Company since February 1996. From June 1994 to February 1996, he was of counsel to Venable, Baetjer, Howard & Civiletti, a law firm, in its regulatory and legislative practice group. From 1990 to 1994, Mr. Beizer was a partner at the law firm of Sidley & Austin and was head of its communications practice group in Washington, D.C. He has represented newspaper and broadcasting companies, including the Company, before the Federal Communications Commission for over 25 years. He is a past president of the Federal Communications Bar Association and a member of the ABA House of Delegates.

MR. STULTZ has been a Vice President of the Company and the President of the Company's publishing division since February 1996. From 1990 to 1995, he was employed by Multimedia, Inc. as a vice president and from 1988 to 1990, as vice president of marketing.



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

DR. MAYHER has been a surgeon since prior to 1991 and has been a director of the Company since 1990. He has served as Chairman of the Board of Directors since August 1993.

MR. BOGER has been the President and chief executive officer of Export Insurance Services, Inc., an insurance company, and a director of CornerCap Group of Funds, a "Series" investment company since prior to 1991. He has been a director of the Company since 1991.

MR. HOWELL has been President and Chief Executive Officer of Atlantic American Corporation, an insurance holding company, since May 1995. He has been Executive Vice President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1994, and Executive Vice President of Atlantic American Life Insurance Company, Bankers Fidelity Life Insurance Company and Georgia Casualty & Surety Company since 1992. In addition, since 1994, he has served as a Vice President and Secretary of Bull Run, a designer and manufacturer of dot matrix printers. He is also a director of the following corporations: Bull Run, Atlantic American Corporation, Atlantic American Life Insurance Company, Bankers Fidelity Life Insurance Company, Delta Life Insurance Company, Delta Fire and Casualty Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company and American Safety Insurance Company. From 1989 to 1991, Mr. Howell practiced law in Houston, Texas with the law firm of Liddell, Sapp, Zivley, Hill & LaBoon. He has been a director of the Company since 1993. He is the son-in-law of J. Mack Robinson.

MR. NEWTON has been the President and Treasurer of Trio Manufacturing Co., a textile manufacturing company, since prior to 1991 and a director of the Company since 1991.

MR. NORTON has been the President of Norco, Inc., an insurance agency, since prior to 1991 and a director of the Company since 1987.

MR. PRATHER has been the President and chief executive officer of Bull Run since July 1992 and a director of Bull Run since 1992. Prior to that time, he was President and chief executive officer of Phoenix Corporation, a steel service center. Mr. Prather has been a director of the Company since 1993.

MR. ROBINSON has been chairman of the board of Bull Run since March 1994, chairman of the board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1958, President of Atlantic American Corporation, an insurance holding company, from 1988 until 1995 and chairman of the board of Atlantic American Corporation since 1995. He is also a director of the following corporations: Bull Run, Atlantic American Life Insurance Company, Bankers Fidelity Life Insurance Company, Delta Life Insurance Company, Delta Fire and Casualty Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company and American Safety Insurance Company and director EMERITUS of Wachovia Corporation. He has been a director of the Company since 1993.

Each director holds office until the Company's next annual meeting of the shareholders and until his successor is elected and qualified. Officers are elected annually by the Board of Directors and hold office at the discretion of the Board.

#### EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	LONG TERM COMPENSATION				
		ANNUAL COMPENSATION		AWARDS		
		SALARY	BONUS	RESTRICTED STOCK AWARDS	SECURITIES UNDERLYING OPTIONS/ SARS(#)	ALL OTHER COMPENSATION
John T. Williams, Former President, Chief Executive Officer and Director (1)	1995	\$ 285,000	\$ -	\$2,081,250(2)	-	\$ 606,266(3)
	1994	286,867	71,910	-	-	2,112(4)
	1993	258,400	112,500	-	-	1,950(4)
Ralph W. Gabbard, President, Director	1995(5)	261,000	150,000	-	15,000	12,628(6)
	1994	77,000	118,941	-	30,509	1,200,000(7)
	1993(8)	-	-	-	-	-
William A. Fielder, III, Vice President and Chief Financial Officer	1995	105,000	22,050	-	3,000	9,188(9)
	1994	95,000	-	-	-	6,055(10)
	1993	88,161	-	-	7,500	6,040(11)
Joseph A. Carriere, Vice President Corporate Sales	1995	115,000	65,922	-	3,750	878(4)
	1994(12)	6,635	-	-	-	-
	1993(8)	-	-	-	-	-

(1) Mr. Williams resigned his position as President, Chief Executive Officer and director of the Company effective December 1, 1995.

(2) Pursuant to Mr. Williams' employment agreement, Mr. Williams received three restricted stock awards (the "Common Stock Award") from the Company aggregating 150,000 shares of Class A Common Stock in 1995. In connection with Mr. Williams' resignation from the Company, the Company removed the restrictions on the Common Stock Award in December 1995 and the shares subject to such Common Stock Award became fully vested.

(3) Upon Mr. Williams' resignation, the Company entered into a separation agreement dated December 1, 1995 (the "Separation Agreement"), which provided, among other things, for the payment of \$596,000 over a two-year period ending November 1997 as consideration for consulting services, his resignation and certain non-compete and confidentiality agreements. \$3,415, \$2,117 and \$4,734 represent payments by the Company for matching contributions to the 401(k) plan, term life insurance premiums and long term disability premiums, respectively. The Company expensed the entire \$596,000 in 1995.

(4) Represents payments by the Company for term life insurance premiums.

(5) Mr. Gabbard was elected President and director of the Company in December 1995. Prior to this election he served as Vice President of the Company and President and Chief Operating Officer of the Company's broadcast operations from September 2, 1994 to December 1995.

(6) \$3,750, \$2,736 and \$6,142 represent payments by the Company for matching contributions to the 401(k) plan, term life insurance premiums and long term disability premiums, respectively.

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

(8) Not employed by the Company during this year.

(9) \$5,765, \$2,406, \$378 and \$639 represent payments or accruals by the Company for supplemental retirement benefits, matching contributions to the 401(k) plan, term life insurance premiums and long term disability premiums, respectively.

(10) \$5,717 and \$338 represent payments or accruals by the Company for supplemental retirement benefits and term life insurance premiums, respectively.

(11) \$5,700 and \$340 represent payments or accruals by the Company for

supplemental retirement benefits and term life insurance premiums, respectively.

(12) Mr. Carriere joined the Company in November 1994 as President and General Manager of KTVE

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

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

OPTION GRANTS IN LAST FISCAL YEAR

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

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

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

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

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

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

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

RETIREMENT PLAN. The Company sponsors a defined benefit pension plan, intended to be tax qualified, for certain of its employees and the employees of any of its subsidiaries which have been designated as participating companies under the plan. A participating employee who retires on or after attaining age 65 and who has completed five years of service upon retirement may be eligible to receive during his lifetime, in the form of monthly payments, an annual pension equal to (i) 22% of the employee's average earnings for the highest five consecutive years during the employee's final 10 years of employment multiplied by a factor, the numerator of which is the employee's years of service credited under the plan before 1994, the

denominator of which is the greater of 25 or the years of service credited under the plan, plus (ii) .9% of the employee's monthly average earnings for the highest five consecutive years in the employee's final ten years of employment added to .6% of monthly average earnings in excess of Social Security covered compensation, and multiplied by the employee's years of service credited under the plan after 1993, with a maximum of 25 years minus years of service credited under (i) above. For participants as of December 31, 1993, there is a minimum benefit equal to the projected benefit under (i) at that time. For purposes of illustration, pensions estimated to be payable upon retirement of participating employees in specified salary classifications are shown in the following table:

PENSION PLAN TABLE

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

(1) Five-year average annual compensation

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

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

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

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

## DIRECTORS' COMPENSATION

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

## EMPLOYMENT AGREEMENTS

In 1995, pursuant to Mr. Williams' employment agreement, Mr. Williams received the Common Stock Award. In December 1995, Mr. Williams resigned his position as President, Chief Executive Officer and director of the Company. Upon his resignation, the Company entered into the Separation Agreement with Mr. Williams which provides for the payment of \$596,000 over a two-year period ending November 1, 1997 as consideration for Mr. Williams' agreement to (i) resign from the Company and terminate his employment agreement, (ii) be available as a consultant to the Company from December 1, 1995 until November 30, 1997 and (iii) not compete with the Company's business and to keep all information regarding the Company confidential while he is a consultant. In addition, under the Separation Agreement, Mr. Williams is to receive health and life insurance coverage with premiums paid by the Company while he is available as a consultant. Finally, the Separation Agreement provides that the restrictions on the Common Stock Award were removed and such Common Stock Award became fully vested.

Ralph W. Gabbard and the Company entered into an employment agreement, dated September 3, 1994, for a five year term. The agreement provides for annual compensation of \$250,000 during the term of the agreement (subject to yearly inflation adjustment) and entitled Mr. Gabbard to certain fringe benefits. In addition to his annual compensation, Mr. Gabbard was entitled to participate in an annual incentive compensation plan and the Incentive Plan. Under the annual incentive compensation plan, Mr. Gabbard was eligible to receive additional compensation if the operating profits of the broadcasting group of the Company reaches or exceeds certain goals. Under the Incentive Plan, Mr. Gabbard has received non-qualified stock options to purchase 30,509 shares of Class A Common Stock. These options are exercisable over a three year period beginning September 1996. The exercise price for such options is \$9.66. Upon the fifth anniversary of Mr. Gabbard's employment with the Company, Mr. Gabbard shall receive 122,034 shares of Class A Common Stock.

In February 1996, the Board of Directors approved an amendment to Mr. Gabbard's employment agreement to increase Mr. Gabbard's base salary from \$250,000 to \$300,000, effective January 1, 1996 and to establish a new annual compensation plan (the "Annual Compensation Plan") to be based upon the achievement by the Company of a certain operating profit, the amount of which is to be established by the Board of Directors. Under the Annual Compensation Plan, if the Company achieves the targeted amount of operating profit in a given year, Mr. Gabbard shall receive \$200,000 as additional compensation. The Annual Compensation Plan further provides that if the Company exceeds the targeted amount of operating profit in a given year, Mr. Gabbard shall be entitled to receive additional compensation in excess of \$200,000, as determined by the Board of Directors. Mr. Gabbard has agreed that during the term of his agreement and for two years thereafter, he will be subject to certain non-competition provisions.

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

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

fair market value of the Class A Common Stock on the date of the grant. All options granted are exercisable over a three year period upon the second anniversary of the grant date. If there is a "change of control" of the Company, Mr. Beizer will be paid a lump sum amount equal to his then current base salary for the remaining term of the agreement and will be granted any remaining stock options to which he would have been entitled. For purposes of the agreement, "change of control" is defined as any change in the control of the Company that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Exchange Act. Mr. Beizer has agreed that during the term of his agreement and for two years thereafter, he will be subject to certain non-competition provisions.

SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to stockholders who are known by the Company to be the beneficial owners of more than 5% of the outstanding Class A Common Stock and the number of shares of Class A Common Stock beneficially owned by directors and named executive officers of the Company, individually, and all directors and executive officers of the Company as a group as of June 15, 1996. Except as indicated below, none of such stockholders own, or have the right to acquire any shares of Class B Common Stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
Bull Run Corporation (1)	1,211,590	27.1%
George H. Nader (2)	240,899	5.4%
Ralph W. Gabbard	918	*
William A. Fielder III (3)	8,563	*
Sabra H. Cowart	195	*
Robert A. Beizer	--	*
Thomas J. Stultz	1,500	*
Joseph A. Carriere	594	*
William E. Mayher III (3)	16,500	*
Richard L. Boger (3)	24,150	*
Hilton H. Howell, Jr. (3)(4)(5)(6)	69,150	1.6%
Howell W. Newton (3)	9,250	*
Hugh Norton (3)	16,500	*
Robert S. Prather, Jr. (3)(4)(7)	30,750	*
J. Mack Robinson (3)(4)(6)(8)	791,940	17.7%
John T. Williams (9)	78,752	1.8%
All directors and executive officers as a group (14 persons)	(4)-(1,048,7628), (10)	23.2%

\* Less than 1%.

- (1) Owned by Bull Run through its wholly-owned subsidiary, Datasouth Computer Corporation. The address of Bull Run is 4370 Peachtree Road, Atlanta, Georgia 30319. Does not include warrants subject to shareholder approval. See "Certain Relationships and Related Transactions."
- (2) Mr. Nader's address is P.O. Box 271, 1011 Fifth Avenue, West Point, Georgia 31833.
- (3) Includes 7,500 shares subject to currently exercisable options.
- (4) Excludes shares owned by Bull Run. Messrs. Howell, Prather and Robinson are directors and officers of Bull Run. Messrs. Prather and Robinson are principal shareholders of Bull Run.
- (5) Includes 39,050 shares owned by Mr. Howell's wife, as to which shares Mr. Howell disclaims beneficial ownership. Excludes 63,000 shares held in trust for Mr. Howell's wife.
- (6) Excludes as to Mr. Howell, and includes as to Mr. Robinson, an aggregate of 297,540 shares owned by certain companies of which Mr. Howell is an officer and director and Mr. Robinson is an officer, director and a principal or sole stockholder.
- (7) Includes 150 shares owned by Mr. Prather's wife, as to which shares Mr. Prather disclaims beneficial ownership.
- (8) Includes an aggregate of 256,650 shares owned by Mr. Robinson's wife directly and as trustee for their daughters, as to which shares Mr. Robinson disclaims beneficial ownership. Mr. Robinson's address is 4370 Peachtree Road, Atlanta, Georgia 30319.
- (9) Mr. Williams resigned his position as President and Chief Executive Officer of the Company effective December 1, 1995.
- (10) Includes 60,000 shares subject to currently exercisable options.



## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Gray Kentucky Television, Inc., a subsidiary of the Company ("Gray Kentucky") is a party to a joint venture agreement with Host Communications, Inc. ("Host") and certain other parties not affiliated with the Company, pursuant to which the parties formed a joint venture to exploit Host's rights to broadcast and market University of Kentucky football and basketball games and related activities. Pursuant to such agreement, Gray Kentucky is licensed to broadcast University of Kentucky football and basketball games and related activities. Under this agreement, Gray Kentucky also provides Host with production and certain marketing services and Host provides accounting and various marketing services. During the year ended December 31, 1995, the Company received approximately \$332,000 from this joint venture.

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

The Company's Board of Directors approved payments to Bull Run of finders fees for the acquisition of the GWINNETT DAILY POST, the Augusta Acquisition and the Phipps Acquisition. The Company agreed to pay finders fees of \$75,000 and \$360,000 for the acquisition of GWINNETT DAILY POST and Augusta Acquisitions, respectively. The Board of Directors has agreed to pay a finders fee of 1% of the proposed purchase price of the Phipps Acquisition for services performed, of which \$550,000 was due and included in accounts payable at December 31, 1995.

On January 3, 1996, Bull Run purchased for \$10 million from the Company (i) the 8% Note in the principal amount of \$10 million due in January 2005, with interest payable quarterly beginning March 31, 1996 and (ii) warrants to purchase 487,500 shares of Class A Common Stock at \$17.88 per share, (subject to customary antidilution provisions) 300,000 of which are currently fully vested, with the remaining warrants vesting in five equal annual installments commencing January 3, 1997, provided that the 8% Note is outstanding. On January 3, 1996, the closing price of the Class A Common Stock on the NYSE was \$17.75. The warrants (which represent 9.9% of the currently issued and outstanding shares of Class A Common Stock, after giving effect to the exercise of such warrants) expire in January 2006 and may not be exercised unless shareholder approval of the issuance of the warrants is obtained, which is expected to occur at the Company's next annual meeting of shareholders. The Company obtained an opinion from The Robinson-Humphrey Company, Inc., one of the underwriters of this Offering and the Concurrent Offering, stating that the terms and conditions of the 8% Note were fair from a financial point of view to the shareholders of the Company. The proceeds from the sale of the 8% Note and the warrants were used to fund, in part, the Augusta Acquisition.

In connection with the issuance by the Company of the \$10 million letter of credit in the Phipps Acquisition, J. Mack Robinson, a director of the Company, executed a put agreement in favor of the letter of credit issuer, for which he received no consideration from the Company. Pursuant to such agreement, in the event that such letter of credit is drawn upon by the sellers of the Phipps Business and the Company defaults on the repayment of such amounts so drawn under the letter of credit, Mr. Robinson has agreed to pay such amounts to the issuer of the letter of credit.

## ISSUANCES OF PREFERRED STOCK

As part of the Financing, the 8% Note will be retired and the Company will issue to Bull Run, in exchange therefor, 1,000 shares of Series A Preferred Stock. Subject to certain limitations, holders of the Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds of the Company legally available for payment, cash dividends at an annual rate of \$800 per share. The Series A Preferred Stock has priority as to dividends over the Common Stock and any other series or class of the Company's stock which ranks junior as to dividends to the Series A Preferred Stock. In case of the

voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Stock will be entitled to receive a liquidation price of \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the payment date, before any payment or distribution is made to the holders of Common Stock or any other series or class of the Company's stock which ranks junior as to liquidation rights to the Series A Preferred Stock. The Series A Preferred Stock may be redeemed at the option of the Company, in whole or in part at any time, at \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the redemption date and such redemption price may be paid, at the Company's option, in cash or in shares of Class A Common Stock. The holders of shares of Series A Preferred Stock will not be entitled to vote on any matter except (i) with respect to the authorization or issuance of capital stock ranking senior to the Series A Preferred Stock and with respect to certain amendments to the Company's Articles of Incorporation, (ii) if the Company shall have failed to declare and pay dividends on the Series A Preferred Stock for any six quarterly payment periods, in which event the holders of the Series A Preferred Stock shall be entitled to elect two directors to the Company's Board of Directors until the full dividends accumulated have been declared and paid and (iii) as required by law. In addition, without the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock, the Company may not authorize or issue a class or series of, or security convertible into, capital stock ranking senior to the Series A Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation, or adversely change the preferences or powers of the Series A Preferred Stock. The warrants issued with the 8% Note will vest in accordance with the schedule described above, provided that the Series A Preferred Stock remains outstanding.

In addition, as part of the Financing, the Company will issue to Bull Run, an affiliate of the Company, for \$10 million, 1,000 shares of Series B Preferred Stock. Subject to certain limitations, holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds of the Company legally available for payment, dividends of Series B Preferred Stock at an annual rate of \$600 per share, except that the Company at its option may pay such dividends in cash or in additional shares of Series B Preferred Stock valued, for the purpose of determining the number of shares (or fraction thereof) of such Series B Preferred Stock to be issued, at \$10,000 per share. The Series B Preferred Stock has priority as to dividends over the Common Stock and any other series or class of the Company's stock which ranks junior as to dividends as the Series B Preferred Stock. In case of the voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Series B Preferred Stock will be entitled to receive a liquidation price of \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the payment date, before any payment or distribution is made to the holders of Common Stock or any other series or class of the Company's stock which ranks junior as to liquidation rights to the Series B Preferred Stock. The Series B Preferred Stock may be redeemed at the option of the Company, in whole or in part at any time, at \$10,000 per share, plus an amount equal to any accrued and unpaid dividends to the redemption date and such redemption price may be paid, at the Company's option, in cash or in shares of Class A Common Stock. The holders of shares of Series B Preferred Stock will not be entitled to vote on any matter except (i) with respect to the authorization or issuance of capital stock ranking senior to the Series B Preferred Stock and with respect to certain amendments to the Company's Articles of Incorporation, (ii) if the Company shall have failed to declare and pay dividends on the Series B Preferred Stock for any six quarterly payment periods, in which event the holders of the Series B Preferred Stock shall be entitled to elect two directors to the Company's Board of Directors until the full dividends accumulated have been declared and paid and (iii) as required by law. In addition, without the affirmative vote of the holders of a majority of the outstanding shares of Series B Preferred Stock, the Company may not authorize or issue a class or series of, or security convertible into, capital stock ranking senior to the Series B Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation or adversely change the preferences or powers of the Series B Preferred Stock.

In connection with the issuance of the Series B Preferred Stock as part of the Financing, (i) the Company will issue to Bull Run warrants entitling the holder thereof to purchase 500,000 shares of Class A Common Stock at an exercise price of \$24.00 per share, (subject to customary antidilution provisions), representing 10.1% of the currently issued and outstanding shares of Class A Common Stock, after giving effect to the exercise of such warrants. Of these warrants, 300,000 will vest upon issuance, with the remaining

warrants vesting in five equal installments commencing on the first anniversary of the date of issuance. The issuance of the warrants must be approved by the Company's shareholders, which is expected to occur at the Company's next annual meeting of shareholders. They may not be exercised prior to the second anniversary of the date of issuance and will expire on the tenth anniversary of the date of issuance. The Company expects to obtain a written opinion from The Robinson-Humphrey Company, Inc., one of the underwriters of this Offering and the Concurrent Offering, stating that the terms and conditions of the Series B Preferred Stock and the warrants are fair to the shareholders of the Company from a financial point of view.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

### THE SENIOR CREDIT FACILITY

The Company has executed a commitment letter with respect to the Senior Credit Facility. However, there can be no assurance that the Company will enter into the Senior Credit Facility on the terms described herein or at all.

As of March 31, 1996, approximately \$52.6 million of indebtedness (excluding accrued interest) was outstanding under the Old Credit Facility. As part of the Financing, the Company will retire all of the outstanding indebtedness under the Old Credit Facility and will enter into the Senior Credit Facility.

The Senior Credit Facility will provide for borrowings of up to an aggregate of \$125.0 million in the form of a seven-year reducing revolving credit facility in the amount of \$53.5 million ("Facility A") and a seven-year reducing revolving credit/term facility in the amount of \$71.5 million ("Facility B"). The Senior Credit Facility will also provide for the issuance of standby letters of credit in an aggregate amount of up to \$15.0 million to the extent that there is borrowing availability under the Senior Credit Facility.

Funds available under the Senior Credit Facility are available to retire indebtedness under the Old Credit Facility and under the Senior Note, to finance certain acquisitions, to fund the optional redemption of the Notes and for capital expenditures and working capital needs. In addition, the Senior Credit Facility may be used to fund, in part, the Phipps Acquisition.

Commitments under Facility A will be reduced in equal quarterly amounts commencing on March 31, 1997 with a final maturity of June 30, 2003. Facility B will convert to a term loan at December 31, 1998, the outstanding balance of which must thereafter be repaid on a quarterly basis with a final maturity of June 30, 2003.

Interest under the Senior Credit Facility will be payable, at the Company's option, at LIBOR or the prime rate, in each case, plus a floating percentage tied to the Company's ratio of total debt to operating cash flow, ranging from LIBOR plus 3.00% or the prime rate plus 0.75%, based upon a 6.25 to 1 ratio, to LIBOR plus 1.50% or the prime rate, based upon a 4 to 1 ratio. Pursuant to the Senior Credit Facility, the Company will be required to enter into interest rate swap agreements for the purpose of interest rate protection covering an amount of borrowings thereunder of no less than 50% of the outstanding principal amount of indebtedness under the Senior Credit Facility.

The Senior Credit Facility will be secured by the pledge of all of the stock of the subsidiaries of the Company and a first lien on all of the assets of the Company and its subsidiaries. Each of the subsidiaries of the Company will guarantee the Company's obligations under the Senior Credit Facility.

The Senior Credit Facility will contain restrictions on the Company's ability to pay dividends and make certain acquisitions. The Senior Credit Facility will also contain provisions requiring the Company to maintain certain financial ratios, including a total debt to operating cash flow ratio, a senior debt to operating cash flow ratio, an operating cash flow to total interest expense ratio and an operating cash flow to pro forma debt service ratio.

The Senior Credit Facility will require the Company to apply at the end of each fiscal year, commencing on December 31, 1997, 50% (if the Company's total debt to operating cash flow ratio at the end of such year is 4.5 to 1 or greater) of its "Excess Cash Flow" to reduce outstanding debt, on a pro rata basis, under Facilities A and B. In addition, the Company will be required to apply from the proceeds of any permitted equity issuance an amount sufficient to reduce the Company's leverage to specified levels. The Senior Credit Facility will require the Company to use the proceeds from certain asset sales to repay indebtedness under the Senior Credit Facility. The Senior Credit Facility will also contain a number of customary covenants including, among others, limitations on investments and advances, mergers and sales of assets, liens on assets, affiliate transactions and changes in business.

## DESCRIPTION OF THE NOTES

Pursuant to the Concurrent Offering, the Company is offering \$150,000,000 aggregate principal amount of its % Senior Subordinated Notes due 2006. Interest on the Notes is payable semi-annually on and commencing , 1996, at the rate of % per annum. The Notes are redeemable, in whole or in part, at the option of the Company on or after , 2001, at the redemption prices set forth in the Indenture pursuant to which the Notes are to be issued (the "Indenture") plus accrued interest to the date of redemption. In addition, at any time before , 1999, the Company, at its option, may redeem up to 35% of the aggregate principal amount of the Notes originally issued with the net proceeds of one or more Public Equity Offerings (as defined in the Indenture), other than this Offering, at the redemption prices set forth in the Indenture plus accrued interest to the date of redemption; provided, however, that at least \$97.5 million in aggregate principal amount of the Notes remain outstanding immediately after any such redemption.

The Notes will be general unsecured obligations of the Company and subordinated in right of payment to all Senior Debt (as defined in the Indenture), including all indebtedness of the Company under the New Credit Facility. Pursuant to the terms of the Indenture, the Notes will be guaranteed, jointly and severally, on a senior subordinated unsecured basis by all of the Company's subsidiaries (the "Subsidiary Guarantors").

Upon a Change of Control (as defined in the Indenture), each holder will have the right to require the Company to repurchase such holder's Notes at a price equal to 101% of their principal amount plus accrued interest to the date of repurchase. If the Phipps Acquisition is not consummated prior to , 1996, the Company will be required to redeem the Notes on or prior to , 1996 at a redemption price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest to the date fixed for redemption. At any time prior to , 1996, if the Phipps Acquisition has not been consummated, the Company, may, at its option, redeem the Notes, in whole but not in part, at a redemption price equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date fixed for redemption. In addition, the Company will be obligated to offer to repurchase Notes at 100% of their principal amount plus accrued interest to the date of repurchase in the event of certain asset sales.

The Indenture will impose certain limitations on the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, pay dividends or make certain other restricted payments, consummate certain asset sales, enter into certain transactions with affiliates, incur indebtedness that is subordinate in right of payment to any senior debt or guarantor senior debt and senior in right of payment to the Notes or any subsidiary guarantor, incur liens, impose restrictions on the ability of a subsidiary to pay dividends or make certain payments to the Company, merge or consolidate with any other person or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the assets of the Company.

## DESCRIPTION OF CAPITAL STOCK

### GENERAL

The following descriptions of certain terms of the Class A Common Stock, Class B Common Stock, preferred stock (the "Preferred Stock") and the Company's warrants are intended as summaries only and are qualified in their entirety by reference to the complete text of the Articles of Incorporation of the Company and such warrants.

### CLASS A AND CLASS B COMMON STOCK

**VOTING.** Holders of Class A Common Stock are entitled to 10 votes per share. Holders of Class B Common Stock are entitled to one vote per share. All actions submitted to a vote of shareholders are voted on by holders of Class A and Class B Common Stock voting together as a single class, except as otherwise provided by law. Immediately after the consummation of this Offering and the Concurrent Offering, the Class B Common Stock will have approximately 7.3% of the outstanding voting power of the Company.

**DIVIDENDS.** Holders of Class B Common Stock are entitled to receive cash dividends on an equal per share basis as Class A Common Stock if and when such dividends are declared by the Board of Directors of the Company from funds legally available therefor.

**LIQUIDATION.** Holders of Class A and Class B Common Stock share with each other on a ratable basis as a single class in the net assets of the Company available for distribution in respect to Class A and Class B Common Stock in the event of liquidation.

**CLASS B RIGHTS.** Voting rights disproportionate to equity ownership may be acquired through acquisitions of Class A Common Stock without corresponding purchases of Class B Common Stock. The Class B Rights are intended to make it more difficult for a buyer who has not acquired 100% of the Class B Common Stock to acquire 100% of the Class A Common Stock. Although the Class B Rights might make the Company a less attractive target for a takeover bid, the Class B Rights are intended to help reduce or eliminate any disparity in the prices at which the two classes of Common Stock might trade and to give holders of the Class B Common Stock the opportunity to participate in any premium that might be paid for 100% of the Class A Common Stock.

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

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

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

For purposes of the Class B Rights, the terms "beneficial ownership" and "group" generally have the same meanings as used in Regulation 13D promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to certain exceptions set forth in the Company's Articles of Incorporation. In addition, only shares of Class B Common Stock acquired by a Significant Shareholder for an "equitable price" shall be treated as being beneficially owned by such Significant Shareholder. An "equitable price" will be deemed to have been paid only when shares of Class B Common Stock have been acquired at a price at least equal to the greater of (i) the highest price per share paid by the Significant Shareholder for either class of the Common Stock in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest price per share of either class of Common Stock

on the NYSE (or such other quotation system or securities exchange constituting the principal trading market for either class of Common Stock) during the 30 calendar days preceding the date such person or group became a Significant Shareholder.

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

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

## PREFERRED STOCK AND WARRANTS

GENERAL. The Company is authorized to issue 20,000,000 shares of Preferred Stock. The Board of Directors of the Company, without further shareholder approval, has the authority to issue, at any time and from time to time, the Preferred Stock of any series and, in connection with the creation of each such series, to fix the number of shares of such series and the relative rights, powers, preferences, qualifications, limitations and restrictions of such series to the full extent now or hereafter permitted by the laws of Georgia. For a description of the Series A Preferred Stock, Series B Preferred Stock and the Company's warrants, see "Certain Relationships and Related Transactions."

## CERTAIN PROVISIONS OF ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation provide that the directors of the Company will not be personally liable for monetary damages to the Company for certain breaches of their fiduciary duty as directors, except for liability (i) for any appropriation, in violation of such director's duties, of any business opportunity of the Company, (ii) for acts or omissions which involve intentional misconduct or a knowing violation of law, (iii) for unlawful corporate distributions or (iv) for any transaction from which the director derived an improper personal benefit. This provision would have no effect on the availability of equitable remedies or non-monetary relief, such as an injunction or rescission for breach of duty of care. In addition, the provision applies only to claims against a director arising out of his role as a director and not in any other capacity (such as an officer or employee of the Company). Directors will, however, no longer be liable for monetary damages arising from decisions involving violations of the duty of care which could be deemed grossly negligent.

## TRANSFER AGENT AND REGISTRAR

Mellon Securities Trust Company will be the Transfer Agent and Registrar for the Class B Common Stock.

## SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have outstanding 4,466,195 shares of Class A Common Stock based upon shares outstanding as of June 15, 1996 and 3,500,000 shares of Class B Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option). Of these shares, shares of Class A Common Stock and all of the Class B Common Stock sold in this Offering will be freely tradeable without restriction or limitation under the Securities Act, except for any shares held or purchased by "affiliates" or persons acting as "underwriters," as these terms are defined under the Securities Act.

Approximately shares of Class A Common Stock held by existing shareholders may not be sold unless they are registered under the Securities Act or sold pursuant to an exemption from registration, such as the exemptions provided by Rule 144 promulgated under the Securities Act.

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned shares for at least a two-year period (as computed under Rule 144) is entitled to sell within any three-month period up to the number of Restricted Shares that does not exceed the greater of (i) one percent of the then outstanding shares of Common Stock of such class or (ii) the average weekly trading volume in the related class of Common Stock of such Class during the four calendar weeks immediately preceding the date on which the notice of sale is filed with the Securities and Exchange Commission, subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. In addition, restricted shares (within the meaning of Rule 144 under the Securities Act) that have been held by a person who is not an "affiliate" of the Company for at least three years may be sold under Rule 144(k) without regard to the volume limitations or current public information or manner of sale requirements of Rule 144.

In addition, the holders of shares of Class A Common Stock and options or warrants to acquire an additional shares of Class A Common Stock, including the Company's directors and executive officers and Bull Run and its affiliates have agreed that they will not sell or otherwise dispose of any shares of



Class A Common Stock or securities convertible into, or exercisable or exchangeable for, Class A Common Stock or Class B Common Stock without the prior consent of The Robinson-Humphrey Company, Inc. for a period of 180 days from the date of this Prospectus. See "Underwriting."

Prior to this Offering, there has not been any public market for the Class B Common Stock. No prediction can be made as to the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of Class A Common Stock or Class B Common Stock in the public market could adversely affect the prevailing market price and the ability of the Company to raise equity capital in the future. See "Risk Factors--No Prior Public Market."

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below, for whom The Robinson-Humphrey Company, Inc. ("Robinson-Humphrey"), Allen & Company Incorporated ("Allen & Company"), J.C. Bradford & Co. and J.P. Morgan Securities Inc. ("J.P. Morgan") are acting as representatives (collectively, the "Representatives"), have severally agreed to purchase from the Company and the Company has agreed to sell to the Underwriters, the number of shares of Class B Common Stock set forth opposite their respective names below:

	NUMBER OF SHARES
The Robinson-Humphrey Company, Inc.....	-----
Allen & Company Incorporated.....	-----
J.C. Bradford & Co.....	-----
J.P. Morgan Securities Inc.....	-----
 Total.....	 ----- ----- -----

The Underwriting Agreement provides that the obligations of the several Underwriters thereunder are subject to approval of certain legal matters by counsel and to various other conditions. The nature of the Underwriters' obligations is such that they are committed to purchase all shares of Class B Common Stock offered hereby if any are purchased.

The Underwriters propose to offer the shares of Class B Common Stock directly to the public at the Price to Public set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$ per share in sales to certain other dealers. After the Offering, the Price to Public and other selling terms may be changed.

The Company, Bull Run and its affiliates and each of the Company's directors and executive officers have agreed that they will not offer, sell or otherwise dispose of any shares of Class A Common Stock or securities convertible into, or exercisable or exchangeable for, Class A Common Stock or Class B Common Stock, subject to certain exceptions, for a period of 180 days from the date of this Prospectus without the prior written consent of Robinson-Humphrey.

The Company has granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to 525,000 additional shares of Class B Common Stock to cover-allotments, if any, at the public offering price less the underwriting discount, as set forth on the cover page of this Prospectus. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 3,500,000 shares of Class B Common Stock offered hereby. The Underwriters may exercise such option only to cover over-allotments in connection with the sale of the shares of Class B Common Stock offered hereby.

Prior to this Offering there has been no public market for the Class B Common Stock. The initial offering price of the Class B Common Stock will be based on the closing price of the Class A Common Stock on the date of offering and will be determined through negotiations between the Company and the Underwriters. There can be no assurance that the market price of the Class B Common Stock subsequent to this Offering will correlate to the market price of the Class A Common Stock. The Company intends to apply to list the Class B Common Stock on the NYSE. The Underwriters have advised the NYSE that they will undertake to ensure that the NYSE share distribution standards required to be satisfied for initial listing of the Class B Common Stock will be met.

Robinson-Humphrey, Allen & Company and J.P. Morgan are acting as underwriters in connection with the Concurrent Offering and will receive customary fees in connection therewith. Robinson-Humphrey will be rendering investment banking advice in connection with the exchange of the 8% Note for Series A

Preferred Stock and the sale of the Series B Preferred Stock and warrants and will receive customary fees in connection therewith. Robinson-Humphrey from time to time has performed investment banking services for the Company and certain of its affiliates, for which it has received customary fees.

The Underwriters do not intend to confirm sales of shares of Class B Common Stock to any accounts over which they exercise discretionary authority.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act.

#### LEGAL MATTERS

The validity of the shares of Class B Common Stock offered hereby will be passed upon for the Company by Heyman & Sizemore, Atlanta, Georgia. Certain other legal matters in connection with this Offering will be passed upon for the Company by Proskauer Rose Goetz & Mendelsohn LLP, New York, New York. Certain legal matters in connection with this Offering will be passed upon for the Underwriters by King & Spalding, Atlanta, Georgia.

#### EXPERTS

The consolidated financial statements and schedule of Gray Communications Systems, Inc. at December 31, 1995 and 1994, and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of WRDW-TV at December 31, 1995 and for the year then ended appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of WRDW-TV (an operating station of Television Station Partners, L.P.) at December 31, 1994 and for the years ended December 31, 1993 and 1994 included in this Prospectus and Registration Statement have been audited by Deloitte & Touche LLP, independent auditors, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements and schedule of the Broadcasting and Paging Operations of John H. Phipps, Inc. at December 31, 1995 and 1994, and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein, and are included in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

#### AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 (the "Registration Statement") under the Securities Act. This Prospectus does not contain all of the information set forth in the Registration Statement and the schedules and exhibits thereto. For further information with respect to the Company and the Class B Common Stock, reference is hereby made to the Registration Statement and to the schedules and exhibits thereto. Statements contained in this Prospectus as to the contents of any contract or other document referred to herein are not necessarily complete and where such contract or other document is an exhibit to the Registration Statement, each such statement is qualified in all respects by the provisions of such exhibit, to which reference is hereby made for a full statement of the provisions thereof.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and, in accordance therewith, files reports, proxy statements and other

information with the Commission. Such Registration Statements, reports, proxy statements and other information filed by the Company with the Commission may be inspected and copied at the public reference facilities of the Commission at its principal office at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and at Room 3190, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60061. Copies of each such document may be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549.

The Company currently has outstanding Class A Common Stock, which is listed on the NYSE. Reports, proxy statements and other information concerning the Company can be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005. Prior to the closing of this Offering, the Company intends to amend its Articles of Incorporation in order to provide that holders of the Class B Common Stock will be entitled to one vote per share and holders of the Class A Common Stock will be entitled to 10 votes per share.

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

	DECEMBER 31, 1995	MARCH 31, 1996
<b>Current Assets</b>		
Cash and cash equivalents	\$559,991	\$2,081,627
Trade accounts receivable, less allowance for doubtful accounts of \$450,000 and \$623,000, respectively	9,560,274	10,145,128
Recoverable income taxes	1,347,007	957,246
Inventories	553,032	231,964
Current portion of program broadcast rights	1,153,058	1,326,825
Other current assets	263,600	651,407
	13,436,962	15,394,197
<b>Property and equipment</b>	37,618,893	40,505,148
Less allowance for depreciation	(20,601,819)	(21,406,793)
	17,017,074	19,098,355
<b>Other assets</b>		
Deferred acquisition costs (includes \$910,000 and \$1,050,000 to Bull Run Corporation at December 31, 1995 and March 31, 1996, respectively) (NOTE C)	3,330,481	1,951,164
Deferred loan costs (NOTE C)	1,232,261	1,939,173
Goodwill and other intangibles (NOTE C)	42,004,050	73,938,623
Other	1,219,650	1,195,139
	47,786,442	79,024,099
	\$78,240,478	\$113,516,651
<b>Current liabilities:</b>		
Trade accounts payable (includes \$670,000 and \$1,050,000 payable to Bull Run Corporation at December 31, 1995 and March 31, 1996, respectively)	\$3,752,742	\$3,372,917
Accrued expenses	5,839,007	6,226,119
Current portion of program broadcast obligations	1,205,784	1,222,983
Current portion of long-term debt	2,861,672	1,516,325
	13,659,205	12,338,344
Long-term debt (including a \$10,000,000 8% Note to Bull Run Corporation at March 31, 1996)	51,462,645	86,924,415
Non-current liabilities	4,133,030	4,535,319
Commitments and Contingencies (NOTE D)		
<b>Stockholders' Equity (NOTE B)</b>		
Class A Common Stock, no par value; authorized 10,000,000 shares; issued 5,082,756 and 5,126,012 shares, respectively	6,795,976	7,262,594
Retained earnings	8,827,906	9,094,263
	15,623,882	16,356,857
Treasury stock, 663,180 shares at cost	(6,638,284)	(6,638,284)
	8,985,598	9,718,573
	\$78,240,478	\$113,516,651

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED	
	MARCH 31,	
	1995	1996
Operating revenues:		
Broadcasting (net of agency commissions)	\$8,349,661	\$11,449,645
Publishing	4,800,644	5,576,934
	13,150,305	17,026,579
Expenses:		
Broadcasting	5,589,776	7,309,865
Publishing	3,961,563	4,808,062
Corporate and administrative	492,951	775,586
Depreciation and amortization	878,749	1,395,254
Non-cash compensation paid in Class A common stock (NOTE B)	236,158	60,000
	11,159,197	14,348,767
Miscellaneous income	1,991,108	2,677,812
	43,313	63,514
Interest expense	2,034,421	2,741,326
	1,376,464	2,156,893
INCOME BEFORE INCOME TAXES	657,957	584,433
Income tax expense	254,000	229,000
NET EARNINGS	\$403,957	\$355,433
Average outstanding common shares	4,307,595	4,606,773
NET EARNINGS PER COMMON SHARE	\$.09	\$.08

See notes to condensed consolidated financial statements.

GRAY COMMUNICATIONS SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	CLASS A COMMON STOCK		TREASURY STOCK		RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT		
Balance at December 31, 1995	5,082,756	\$6,795,976	(663,180)	\$(6,638,284)	\$8,827,906	\$8,985,598
Net income for the three months ended March 31, 1996	-0-	-0-	-0-	-0-	355,433	355,433
Cash dividends (\$.02 per share)	-0-	-0-	-0-	-0-	(89,076)	(89,076)
Issuance of Class A Common Stock:						
401(k) Plan	4,256	78,369	-0-	-0-	-0-	78,369
Directors stock plan	22,500	228,749	-0-	-0-	-0-	228,749
Non-qualified stock plan	16,500	159,500	-0-	-0-	-0-	159,500
Balance at March 31, 1996	5,126,012	\$7,262,594	(663,180)	\$(6,638,284)	\$9,094,263	\$9,718,573

See notes to condensed consolidated financial statements.



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

	THREE MONTHS ENDED MARCH 31,	
	1995	1996
<b>OPERATING ACTIVITIES</b>		
Net income	\$403,957	\$355,433
Items which did not use (provide) cash:		
Depreciation	584,988	848,427
Amortization of intangible assets	293,761	546,827
Amortization of program broadcast rights	401,838	646,820
Payments for program broadcast rights	(481,311)	(661,603)
Compensation paid in Class A Common Stock	236,158	60,000
Supplemental employee benefits	(76,643)	(135,755)
Class A Common Stock contributed to 401(k) Plan	70,417	78,369
Deferred income taxes	91,000	343,850
(Gain) loss on disposal of assets	(725)	(20,406)
Changes in operating assets and liabilities:		
Receivables, inventories, and other current assets	687,323	1,578,389
Accounts payable and other current liabilities	(690,692)	(521,496)
Net cash provided by operating activities	1,520,071	3,118,855
<b>INVESTING ACTIVITIES</b>		
Acquisition of newspaper business	(1,232,509)	-0-
Acquisition of television business	-0-	(34,300,713)
Purchases of property and equipment	(973,437)	(813,588)
Deferred acquisition costs	-0-	(931,623)
Proceeds from asset sales	1,293	113,297
Other	(164,563)	(80,188)
Net cash used in investing activities	(2,369,216)	(36,012,815)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(84,496)	(89,076)
Class A Common Stock transactions	-0-	388,249
Proceeds from borrowings of long-term debt	700,000	36,725,000
Payments on long-term debt	(33,652)	(2,608,577)
Net cash provided by financing activities	581,852	34,415,596
Increase (decrease) in cash and cash equivalents	(267,293)	1,521,636
Cash and cash equivalents at beginning of period	558,520	559,991
Cash and cash equivalents at end of period	\$291,227	\$2,081,627

See notes to condensed consolidated financial statements.

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

NOTE A -- BASIS OF PRESENTATION

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

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

NOTE B -- EMPLOYMENT AGREEMENTS

During the quarter ended March 31, 1995, the Company awarded 150,000 shares of its Class A Common Stock to its former president and chief executive officer under his employment agreement. Compensation expense of approximately \$176,000 was recognized for these awards in the quarter ended March 31, 1995.

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

NOTE C -- BUSINESS ACQUISITIONS

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

PENDING ACQUISITIONS

In December 1995, as amended in March 1996, the Company entered into an asset purchase agreement to acquire (the "Phipps Acquisition") two CBS-affiliated stations, WCTV-TV ("WCTV") serving Tallahassee, Florida/Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, a satellite broadcasting business and a paging business (collectively, the "Phipps Business"). The purchase price is estimated at approximately \$185.0 million. The Company's Board of Directors has agreed to pay Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, a finder's fee equal to 1% of the proposed purchase price for services performed, of which \$1.05 million was due and included in accounts payable at March 31, 1996.

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

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

NOTE C -- BUSINESS ACQUISITIONS (CONTINUED)

of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1033 of the Internal Revenue Code of 1986, as amended (the "Code"). If the Company is unable to effect such a swap on satisfactory terms within the time period granted by the FCC, the Company may transfer such assets to a trust with a view towards the trustee effecting a swap or sale of such assets. Any such trust arrangement would be subject to the approval of the FCC.

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

	MARCH 31, 1996	
	WALB	WJHG
Current assets	\$1,667	\$855
Property and equipment	1,769	1,078
Other assets	76	3
Total assets	\$3,512	\$1,936
Current liabilities	\$1,127	\$428
Other liabilities	228	0
Stockholders' equity	2,157	1,508
Total liabilities and stockholders' equity	\$3,512	\$1,936

Condensed income statement data of WALB and WJHG are as follows (in thousands):

	WALB THREE MONTHS ENDED MARCH 31,		WJHG THREE MONTHS ENDED MARCH 31,	
	1995	1996	1995	1996
Broadcasting revenues	\$2,182	\$2,340	\$851	\$1,099
Expenses	1,190	1,242	802	949
Operating income	992	1,098	49	150
Other income	4	9	15	16
Income before income taxes	996	1,107	64	166
Net income	\$618	\$686	\$40	\$103

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

In connection with the Phipps Acquisition, a bank has provided a \$10.0 million stand-by letter of credit to the seller of the Phipps Business on behalf of the Company. The letter of credit will be payable under certain conditions if

the Phipps Acquisition is not completed. In connection with the issuance of the letter of

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NOTE C -- BUSINESS ACQUISITIONS (CONTINUED)

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

1996 ACQUISITIONS

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

Funds for the Augusta Acquisition were obtained from the modification of the Company's existing bank debt to a variable rate reducing revolving credit facility (the "Senior Credit Facility") and the sale to Bull Run of an 8% subordinated note due January 3, 2005 in the principal amount of \$10.0 million (the "8% Note"). In connection with the sale of the 8% Note, the Company also issued warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at \$17.88 per share, 300,000 shares of which are currently vested, with the remainder vesting in five equal annual installments commencing in 1997 provided that the 8% Note is outstanding. The Senior Credit Facility provides for a credit line up to \$55.0 million, of which \$52.6 million was outstanding at March 31, 1996. This transaction also required a modification of the interest rate of the Company's \$25.0 million senior secured note with an institutional investor from 10.08% to 10.7%.

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

An unaudited pro forma statement of income for the three months ended March 31, 1995, is presented below and assumes that the Augusta Acquisition occurred on January 1, 1995.

This pro forma unaudited statement of income does not purport to represent the Company's actual results of operations had the Augusta Acquisition occurred on January 1, 1995, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this

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

NOTE C -- BUSINESS ACQUISITIONS (CONTINUED)

time. Subsequent adjustments are expected upon final determination of the allocation of the purchase price. An unaudited pro form statement of income for the three months ended March 31, 1995 is as follows (in thousands, except per share data):

Operating revenues	\$15,106
Operating expenses	12,906
	-----
	2,200
Miscellaneous income (expense), net	45
Interest expense	2,197
	-----
Pro forma income before income taxes	48
Income tax expense	21
	-----
Pro forma net income	\$27
	-----
Pro forma average shares outstanding	4,308
	-----
Pro forma earnings per share	\$.01
	-----
	-----

1995 ACQUISITION

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

NOTE D -- COMMITMENTS AND CONTINGENCIES

The Company entered into an interest rate swap agreement on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. The interest rate swap is effective for five years. Approximately \$25.0 million of the Company's outstanding long-term debt was subject to this interest rate swap agreement at March 31, 1996. The effective rate of the Senior Credit Facility and interest rate swap at March 31, 1996, was approximately 8.95% and 9.61%, respectively. The unrealized gain for the interest rate swap was approximately \$109,000 at March 31, 1996, based upon comparison to treasury bond yields for bonds with similar maturity dates as the interest rate swap.

The Company has entered into an agreement to sell KTVE Inc., the Company's NBC-affiliated station serving Monroe, Louisiana/El Dorado, Arkansas, for approximately \$9.5 million in cash plus the amount of the accounts receivable on the date of closing (estimated to be approximately \$750,000) to the extent collected by the buyer, to be paid to the Company 150 days following the date of closing. The sale agreement regarding KTVE includes a number of closing conditions, including final FCC approval, and there can be no assurance that such closing conditions can be satisfied or waived. The closing of the KTVE sale is expected to occur by September 1996.

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

NOTE D -- COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	MARCH 31, 1996
Current assets	\$893
Property and equipment	1,647
Other assets	557
<b>Total assets</b>	<b>\$3,097</b>
Current liabilities	\$298
Other liabilities	476
Stockholders' equity	2,323
<b>Total liabilities and stockholders' equity</b>	<b>\$3,097</b>

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

	THREE MONTHS ENDED MARCH 31,	
	1995	1996
Broadcasting revenues	\$919	\$1,066
Expenses	931	970
Operating income (loss)	(12)	96
Other income	4	3
Income (loss) before income taxes	(8)	99
Net income (loss)	\$(5)	\$59

NOTE E -- SUBSEQUENT EVENTS

On May 2, 1996, the Company filed two registration statements with the Securities and Exchange Commission for a public offering of \$150.0 million principal amount of its senior subordinated notes due 2006 and 3.5 million shares of its Class B Common Stock. The Company intends to use the net proceeds from these offerings in part to fund the Phipps Acquisition and to repay indebtedness under the Senior Credit Facility. The remainder thereof will be used for working capital and general corporate purposes.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
Gray Communications Systems, Inc.

We have audited the accompanying consolidated balance sheets of Gray Communications Systems, Inc. as of December 31, 1994 and 1995 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gray Communications Systems, Inc. at December 31, 1994 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Columbus, Georgia  
February 14, 1996



GRAY COMMUNICATIONS SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1994	1995
ASSETS		
Current assets (NOTE C):		
Cash and cash equivalents	\$558,520	\$559,991
Trade accounts receivable, less allowance for doubtful accounts of \$694,000 and \$450,000, respectively	8,448,366	9,560,274
Recoverable income taxes	-0-	1,347,007
Inventories	368,202	553,032
Current portion of program broadcast rights	1,195,633	1,153,058
Other current assets	247,687	263,600
	10,818,408	13,436,962
Property and equipment (NOTES B AND C):		
Land	646,562	758,944
Buildings and improvements	8,594,343	8,630,694
Equipment	24,781,964	28,229,255
	34,022,869	37,618,893
Allowance for depreciation	(17,999,752)	(20,601,819)
	16,023,117	17,017,074
Other assets (NOTE C):		
Deferred acquisition costs (including \$860,000 to Bull Run Corporation) (NOTE B)	-0-	3,330,481
Deferred loan costs	1,381,908	1,232,261
Goodwill and other intangibles (NOTE B)	38,538,413	42,004,050
Other	2,026,938	1,219,650
	41,947,259	47,786,442
	\$68,788,784	\$78,240,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable (including \$670,000 payable to Bull Run Corporation at December 31, 1995)	\$2,114,008	\$3,752,742
Employee compensation and benefits	3,150,154	4,213,639
Accrued expenses	512,483	560,877
Accrued interest	985,955	1,064,491
Current portion of program broadcast obligations	1,687,481	1,205,784
Current portion of long term debt	1,293,481	2,861,672
	9,743,562	13,659,205
Long-term debt (NOTE C)	51,646,265	51,462,645
Other long-term liabilities:		
Program broadcast obligations, less current portion	54,489	109,971
Supplemental employee benefits (NOTE D)	2,343,379	2,212,685
Deferred income taxes (NOTE F)	-0-	201,348
Other acquisition related liabilities (NOTES B AND C)	-0-	1,609,026
	2,397,868	4,133,030
Commitments and contingencies (NOTES B, C AND H)		
Stockholders' equity (NOTES B, C AND E)		
Class A Common Stock, no par value; authorized 10,000,000 shares; issued 4,841,785 and 5,082,756 shares, respectively	3,393,747	6,795,976
Retained earnings	8,245,626	8,827,906
	11,639,373	15,623,882
Treasury Stock, 663,180 shares, at cost	(6,638,284)	(6,638,284)
	5,001,089	8,985,598
	\$68,788,784	\$78,240,478

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying notes.

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

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

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

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

PRINCIPLES OF CONSOLIDATION

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

REVENUE RECOGNITION

The Company recognizes revenues as services are performed.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROGRAM BROADCAST RIGHTS

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

PROPERTY AND EQUIPMENT

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

INTANGIBLE ASSETS

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

INCOME TAXES

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

CAPITAL STOCK

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

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

EARNINGS PER COMMON SHARE

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

STOCK OPTION PLAN

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

CONCENTRATION OF CREDIT RISK

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

INTEREST SWAP

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

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

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

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

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

RECLASSIFICATIONS

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

B. BUSINESS ACQUISITIONS

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

PENDING ACQUISITIONS

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

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

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

B. BUSINESS ACQUISITIONS (CONTINUED)

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

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

On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV, a CBS television affiliate serving the Augusta, Georgia television market (the "Augusta Acquisition"). The purchase price of approximately \$35.9 million, excluding assumed liabilities of approximately \$4.0 million, was financed primarily through long-term borrowings. The assets acquired consisted of office equipment and broadcasting operations located in North Augusta, South Carolina. Based on a preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately \$32.4 million. In connection with the Augusta Acquisition, the Company's Board of Directors approved the payment of a \$360,000 finders fee to Bull Run.

Funds for the Augusta Acquisition were obtained from the sale to Bull Run of an 8% subordinated note due January 3, 2005 in principal amount of \$10.0 million (the "Subordinated Note"). In connection with the sale of the Subordinated Note, the Company also issued warrants to Bull Run to purchase 487,500 shares of Common Stock at \$17.88 per share, 300,000 of which are currently vested, with the remaining warrants vesting in five equal installments commencing in 1997 provided that the Subordinated Note is outstanding. The warrants may not be exercised prior to January 3, 1998 and expire in January 2006. The Company modified its existing bank debt to a variable rate reducing revolving credit facility providing a credit line of \$55.0 million (see Note C). The outstanding credit facility balance subsequent to the Augusta Acquisition was approximately \$54.0 million; including \$28.4 million, which was outstanding under the credit facility at December 31, 1995, \$25.2 million used for the Augusta Acquisition, and \$425,000 used for the Company's working capital. The transaction also required a modification of the interest rate of the Company's \$25.0 million senior secured note with an institutional investor (the "Senior Note") from 10.08% to 10.7%.

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



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

B. BUSINESS ACQUISITIONS (CONTINUED)

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

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

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

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

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

B. BUSINESS ACQUISITIONS (CONTINUED)

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

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

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

1995 ACQUISITIONS

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

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

1994 ACQUISITIONS

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

B. BUSINESS ACQUISITIONS (CONTINUED)

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

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

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

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

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

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

B. BUSINESS ACQUISITIONS (CONTINUED)

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

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

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

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

B. BUSINESS ACQUISITIONS (CONTINUED)

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

C. LONG-TERM DEBT

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

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

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

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

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

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

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

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

C. LONG-TERM DEBT (CONTINUED)

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

1996	\$2,862
1997	5,039
1998	6,634
1999	12,615
2000	11,303
Thereafter	15,872
	-----
	\$54,325
	-----
	-----

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

D. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS

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

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

The Company has entered into supplemental retirement benefit agreements with certain key employees. These benefits are to be paid in equal monthly amounts over the employees' life for a period not to exceed 15 years after retirement. The Company charges against operations amounts sufficient to fund the present value of the estimated lifetime supplemental benefit over each employee's anticipated remaining period of employment. The Company maintains life insurance coverage on these individuals (with a cash surrender value of approximately \$280,000 at December 31, 1995) in adequate amounts to fund the agreements.

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

D. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS (CONTINUED)

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

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

E. STOCKHOLDERS' EQUITY

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

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

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

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

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

F. INCOME TAXES

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



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

F. INCOME TAXES (CONTINUED)

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

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

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

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

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

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

F. INCOME TAXES (CONTINUED)

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

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

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

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

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

G. RETIREMENT PLANS

PENSION PLAN

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

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

G. RETIREMENT PLANS (CONTINUED)

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

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

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

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

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

CAPITAL ACCUMULATION PLAN

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

G. RETIREMENT PLANS (CONTINUED)

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

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

H. COMMITMENTS AND CONTINGENCIES

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

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

1996	\$491,360
1997	1,431,983
1998	1,351,273
1999	1,133,860
2000	456,733
	-----
	\$4,865,209
	-----
	-----

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

I. DISCONTINUED OPERATIONS

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

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

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

I. DISCONTINUED OPERATIONS (CONTINUED)

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

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

J. INFORMATION ON BUSINESS SEGMENTS

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

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

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

J. INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

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

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

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

REPORT OF INDEPENDENT AUDITORS

Partners of Television Station Partners, L.P.

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

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

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

ERNST & YOUNG LLP

Atlanta, Georgia  
January 26, 1996

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

ASSETS

Current assets:

Cash	\$333,658
Accounts receivable, net of allowance for doubtful accounts of approximately \$117,380	1,748,208
Television film exhibition rights	924,107
Prepaid and other current assets	55,342
	-----
Total current assets	3,061,315
Property, buildings and equipment-net (NOTE 3):	1,778,429
Television film exhibition rights	2,570,850
Intangible assets-net	4,128,730
	-----
Total	\$11,539,324
	-----

LIABILITIES AND PARTNERSHIP'S EQUITY

Current liabilities:

Accounts payable and accrued expenses (NOTE 4)	\$233,197
Obligations for television film exhibition rights	898,251
	-----
Total current liabilities	1,131,448
Obligations for television film exhibition rights	2,680,267
Commitments and contingencies (NOTE 5)	
Partnership's equity (NOTES 1 AND 7)	7,727,609
	-----
Total	\$11,539,324
	-----

SEE ACCOMPANYING NOTES.



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

REVENUES:	
Broadcasting revenues	\$10,059,555
Less:	
Advertising agency commissions	1,171,595
National sales representative commissions	227,368
	-----
Total advertising agency and national sales representative commissions	1,398,963
	-----
Net operating revenues	8,660,592
	-----
OPERATING EXPENSES:	
Operating, technical and programming costs	3,142,280
Selling, general and administrative	2,631,952
Depreciation	272,298
Amortization of intangible assets	151,620
	-----
Total operating expenses	6,198,150
	-----
INCOME BEFORE OTHER EXPENSES	2,462,442
Other-expenses, net	220,211
	-----
Net income	\$2,242,231
	-----
	-----

SEE ACCOMPANYING NOTES.

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

Balance at December 31, 1994	\$7,410,422
Net income	2,242,231
Distribution to Television Station Partners, L.P.	(1,925,044)
	-----
Balance at December 31, 1995	\$7,727,609
	-----
	-----

SEE ACCOMPANYING NOTES.

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

CASH FLOW FROM OPERATING ACTIVITIES	
Net income	\$2,242,231
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,359,415
Provision for bad debt (recoveries)	(14,000)
Net trade barter revenue	(59,356)
Gain on sale of property and equipment	(12,868)
Changes in operating assets and liabilities:	
Accounts receivable	(60,155)
Prepaid and other assets	102,937
Accounts payable and accrued expenses	(359,296)
Payments of obligations for television film exhibition rights	(1,017,754)
Other	274,956
	-----
Net cash provided by operating activities	2,456,110
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	12,868
Capital expenditures	(121,987)
	-----
Net cash used in investing activities	(109,119)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash transferred to Partnership	(2,200,000)
	-----
Net cash used in financing activities	(2,200,000)
NET INCREASE IN CASH	146,991
CASH AT BEGINNING OF YEAR	186,667
	-----
CASH AT END OF YEAR	\$333,658
	-----
	-----
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING, INVESTING AND FINANCIAL ACTIVITIES	
Television film exhibition obligations were incurred when the Station entered into contracts for film exhibition rights totaling:	\$387,450
	-----
Property and equipment was acquired in exchange for advertising time totaling:	\$59,356
	-----
	-----

SEE ACCOMPANYING NOTES.

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

1. STATION ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TELEVISION FILM EXHIBITION RIGHTS

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

PROPERTY, BUILDINGS AND EQUIPMENT

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

INTANGIBLE ASSETS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
 TRADE/BARTER TRANSACTIONS

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

INCOME TAXES

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

3. PROPERTY, BUILDINGS, AND EQUIPMENT

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

Land	\$190,000
Buildings and tower	2,062,613
Automobiles	136,245
Furniture and fixtures	5,999,846
Machinery and equipment	1,769,175
	-----
	10,157,879
Less accumulated depreciation	8,379,450
	-----
	\$1,778,429
	-----
	-----

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts payable	\$10,275
Accrued state taxes	9,096
Accrued payroll, commissions, and bonuses	152,201
Other accrued expenses	61,625
	-----
	\$233,197
	-----
	-----

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

5. COMMITMENTS AND CONTINGENCIES

FILM EXHIBITION RIGHTS

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

YEAR ENDING DECEMBER 31	AMOUNT
1996	\$898,251
1997	875,838
1998	838,254
1999	672,724
2000	293,451
	-----
	\$3,578,518
	-----
	-----

LITIGATION

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

DEBT

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

6. TRANSACTIONS WITH RELATED PARTIES

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

7. PENSION PLAN

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

8. SUBSEQUENT EVENT

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

	1994
	-----
ASSETS	
CURRENT ASSETS:	
Cash	\$186,667
Accounts receivable, net of allowance for doubtful accounts of approximately \$131,000	1,674,053
Television film exhibition rights	874,495
Prepaid and other current assets	158,279
	-----
Total current assets	2,893,494
PROPERTY, BUILDINGS AND EQUIPMENT-Net (NOTE 3):	1,869,384
TELEVISION FILM EXHIBITION RIGHTS	3,168,509
INTANGIBLE ASSETS-Net	4,280,350
	-----
TOTAL	\$12,211,737
	-----
	-----
LIABILITIES AND PARTNERSHIP'S EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses (NOTE 4)	\$592,493
Obligations for television film exhibition rights (NOTE 5)	908,652
	-----
Total current liabilities	1,501,145
OBLIGATIONS FOR TELEVISION FILM EXHIBITION RIGHTS (NOTE 5)	3,300,170
COMMITMENTS AND CONTINGENCIES (NOTE 6)	
PARTNERSHIP'S EQUITY (NOTES 1 AND 8)	7,410,422
	-----
Total	\$12,211,737
	-----
	-----

SEE NOTES TO FINANCIAL STATEMENTS.



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

	1993	1994
	-----	-----
REVENUES:		
Broadcasting revenues	\$7,933,825	\$9,460,307
Less:		
Advertising agency commissions	943,174	1,158,952
National sales representative commissions	194,516	255,379
	-----	-----
Total advertising agency and national sales representative commissions	1,137,690	1,414,331
	-----	-----
Net operating revenues	6,796,135	8,045,976
	-----	-----
OPERATING EXPENSES:		
Operating, technical and programming costs	2,555,795	2,958,364
Selling, general and administrative	2,126,770	2,434,477
Depreciation	290,730	309,949
Amortization of intangible assets	151,620	151,620
	-----	-----
Total operating expenses	5,124,915	5,854,410
	-----	-----
INCOME BEFORE OTHER EXPENSES	1,671,220	2,191,566
Other-expenses, net	77,408	54,570
	-----	-----
NET INCOME	\$1,593,812	\$2,136,996
	-----	-----

SEE NOTES TO FINANCIAL STATEMENTS.

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

	PARTNERSHIP'S EQUITY
	-----
BALANCE, JANUARY 1, 1993	\$7,829,582
Net income	1,593,812
Transfer to Television Station Partners, L.P.	(1,909,588)
	-----
BALANCE, DECEMBER 31, 1993	7,513,806
Net income	2,136,996
Transfer to Television Station Partners, L.P.	(2,240,380)
	-----
BALANCE, DECEMBER 31, 1994	\$7,410,422
	-----
	-----

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

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

SEE NOTES TO FINANCIAL STATEMENTS.

1. STATION ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

3. PROPERTY, BUILDINGS AND EQUIPMENT

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

	DECEMBER 31, 1994
	-----
Land	\$190,000
Buildings and Tower	2,043,123
Automobiles	153,378
Furniture and fixtures	5,994,475
Machinery and equipment	1,637,285
	-----
	10,018,261
Less accumulated depreciation	8,148,877
	-----
	\$1,869,384
	-----

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31, 1994
	-----
Accounts payable	\$99,042
Accrued state taxes	25,126
Accrued payroll, commissions, and bonuses	133,473
Other accrued expenses	334,852
	-----
	\$592,493
	-----

5. OBLIGATIONS FOR TELEVISION FILM EXHIBITION RIGHTS

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

YEAR ENDING DECEMBER 31	AMOUNT
	-----
1995	\$908,652
1996	907,886
1997	822,655
1998	736,849
1999	539,332
Thereafter	293,448
	-----
Current portion	4,208,822
	908,652
	-----
Long-term obligations	\$3,300,170
	-----

6. COMMITMENTS AND CONTINGENCIES

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

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

7. TRANSACTIONS WITH RELATED PARTIES

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

8. PENSION PLAN

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

9. SUBSEQUENT EVENT

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

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

	DECEMBER 31, 1995	MARCH 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$620,015	\$186,719
Accounts receivable, less allowance for doubtful accounts of \$49,000 and \$52,000, respectively	5,152,778	4,611,222
Program broadcast rights, current portion	919,281	926,781
Other current assets	347,785	265,976
	-----	-----
Property and equipment, net	7,039,859	5,990,698
Goodwill and other intangibles	10,492,583	10,155,764
Program broadcast rights, less current portion	9,454,775	9,279,119
	575,111	343,165
	-----	-----
	10,029,886	9,622,284
	-----	-----
	\$27,562,328	\$25,768,746
	-----	-----
	-----	-----
LIABILITIES AND OWNER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$365,468	461,144
Program broadcast obligations, current portion	921,579	804,477
Deferred paging service income	833,264	909,268
Current portion of long-term debt	1,389,931	1,431,806
Other current liabilities	907,345	856,214
	-----	-----
Long-term debt	4,417,587	4,462,909
Program broadcast obligations, less current portion	3,419,918	2,638,623
Minority interest	345,140	213,906
Commitments and contingencies	585,768	438,299
Owner's equity	18,793,915	18,015,009
	-----	-----
	\$27,562,328	\$25,768,746
	-----	-----
	-----	-----

See accompanying notes to condensed financial statements.



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

	THREE MONTHS ENDED	
	MARCH 31,	
	1995	1996
Revenues:		
Broadcast revenues, net	\$4,442,534	\$4,693,371
Paging operations	1,238,394	1,338,766
Production and other revenues	358,809	514,437
	6,039,737	6,546,574
Expenses:		
Operating, technical and programming	1,256,758	1,447,337
Selling, general and administrative	1,789,947	1,963,261
Amortization of program broadcast rights	211,204	231,945
Depreciation and amortization	700,331	758,773
Pension credit (NOTE 2)	(112,250)	(113,000)
Management fees	769,360	371,185
	4,615,350	4,659,501
Interest	1,424,387	1,887,073
Other (income) expense, net	113,637	92,342
	4,862	(10,803)
Income before minority interests	1,305,888	1,805,534
Minority interests	(58,040)	(79,767)
Net income	\$1,247,848	\$1,725,767
Supplemental pro-forma net income		
Net income, as above	\$1,247,848	\$1,725,767
Pro-forma provision for income tax expense	(474,200)	(655,800)
Pro-forma net income	\$773,648	\$1,069,967

See accompanying notes to condensed financial statements.

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

	THREE MONTHS ENDED	
	MARCH 31,	
	1995	1996
OPERATING ACTIVITIES:		
Net income	\$1,247,848	\$1,725,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	700,331	758,773
Gain (loss) on disposition of fixed assets	(18,192)	53,081
Amortization of program broadcast rights	211,204	231,945
Payments of program broadcast rights obligations	(229,024)	(248,336)
Minority interests	58,040	79,767
Changes in operating assets and liabilities:		
Accounts receivable	386,008	541,556
Other current assets	(168,767)	74,309
Accounts payable and accrued expenses	8,780	95,676
Other current liabilities	(165,597)	(51,131)
Deferred paging income	63,539	76,004
Net cash provided by operating activities	2,094,170	3,337,411
Investing activities:		
Purchases of property and equipment	(1,239,028)	(710,169)
Proceeds from disposition of property and equipment	274,279	415,165
Net cash used in investing activities	(964,749)	(295,004)
Financing activities:		
Indebtedness:		
Borrowings	931,440	66,576
Repayments	(1,265,694)	(805,996)
Distributions to minority interests	(114,894)	(227,236)
Other	(1,235)	(4,375)
Payments to J.H. Phipps, Inc., net	(641,971)	(2,504,672)
Net cash used in financing activities	(1,092,354)	(3,475,703)
Increase (decrease) in cash and cash equivalents	37,067	(433,296)
Cash and cash equivalents at beginning of period	95,210	620,015
Cash and cash equivalents at end of period	\$132,277	\$186,719

See accompanying notes to condensed financial statements.

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

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. (the "Phipps Business") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1996, are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the annual financial statements and footnotes thereto of the Phipps Business included herein.

NOTE 2 -- EMPLOYEE BENEFIT PLANS

Management of J.H. Phipps, Inc. has elected to terminate the defined benefit pension plan effective March 31, 1996 subject to obtaining approval from the appropriate regulatory agencies.

NOTE 3 -- SALE OF PHIPPS BUSINESS

Pursuant to an agreement dated December 15, 1995 as amended March 15, 1996, Gray Communications Systems, Inc. ("Gray") agreed to purchase substantially all of the assets and assume certain liabilities and commitments of certain operations owned by J.H. Phipps, Inc. ("Phipps"). The operations include (i) two CBS affiliates-a VHF television station (WCTV-TV located in Tallahassee, Florida), and 74.5% interest in a UHF television station (WKXT-TV located in Knoxville, Tennessee), (the "Broadcast Operations"); and (ii) a portable communications and paging service business (the "Paging Operations"), with operations in three southeastern states (collectively referred to as the "Broadcasting and Paging Operations"). The purchase is subject to regulatory approval.

At March 31, 1996, a Phipps subsidiary held the 74.5% interest in the partnership that owns WKXT-TV (the "Knoxville Partnership"). The Knoxville Partnership's remaining 25.5% interest is owned by four limited partners and their ownership is shown as "minority interests" in the accompanying financial statements. Gray, in separate agreements, has also agreed to purchase the limited partners' interests.

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

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
John H. Phipps, Inc.

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

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

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

ERNST & YOUNG LLP

Atlanta, Georgia  
February 19, 1996

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

	DECEMBER 31,	
	1994	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$95,210	\$620,015
Accounts receivable, less allowance of \$49,000 for each year	4,474,754	5,152,778
Program broadcast rights, current portion	521,921	919,281
Other current assets	329,343	347,785
	5,421,228	7,039,859
Program broadcast rights, excluding current portion	579,561	575,111
Property and equipment, net (NOTE 3)	10,720,196	10,492,583
Goodwill and other intangibles (NOTE 3)	8,576,721	9,454,775
	\$25,297,706	\$27,562,328
LIABILITIES AND OWNER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$467,300	\$365,468
Program broadcast obligations, current portion	722,676	921,579
Deferred paging service income	579,109	833,264
Current portion of long-term debt (NOTE 4)	1,206,483	1,389,931
Other current liabilities	1,025,042	907,345
	4,000,610	4,417,587
Long-term debt, less current portion (NOTE 4)	4,858,433	3,419,918
Program broadcast obligations, less current portion	245,421	345,140
Commitment and contingencies (NOTES 9 AND 10)		
Minority interests	728,293	585,768
Owner's equity	15,464,949	18,793,915
	\$25,297,706	\$27,562,328

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

1. BASIS OF PRESENTATION

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

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

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

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

2. ACCOUNTING POLICIES

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

CONCENTRATION OF CREDIT RISK

The Broadcast Operations provide advertising air time to national, regional and local advertisers within the geographic areas in which the Broadcast Operations operate. Credit is extended based on an evaluation of the customer's financial condition, and generally advance payment is not required. The Paging Operations provide services to individuals and corporate customers in three southeastern



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

2. ACCOUNTING POLICIES (CONTINUED)

states. Such services are generally billed in advance. Credit losses for the Broadcasting and Paging Operations are provided for in the financial statements and consistently have been within management's expectations.

BARTER ARRANGEMENTS

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

CASH AND CASH EQUIVALENTS

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

PROGRAM BROADCAST RIGHTS

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

PROPERTY AND EQUIPMENT

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

INTANGIBLE ASSETS

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

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

INTEREST SWAP

The Knoxville Partnership had an interest rate swap agreement to modify the interest characteristics of a portion of its outstanding debt (see Note 4. INDEBTEDNESS). The agreement, which expired during 1995, involved the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon

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

2. ACCOUNTING POLICIES (CONTINUED)

which the payments are based. The differential to be paid or received as interest rates changed was accrued and recognized as an adjustment of interest expense related to the debt (the accrual accounting method). Interest expense (income) adjustments resulting from the interest rate swap were \$44,385 in 1993, \$(986) in 1994 and \$(2,805) in 1995.

STOCK BASED COMPENSATION

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

INCOME TAXES

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

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

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

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

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

	DECEMBER 31, 1994	1995
Goodwill	\$3,050	\$4,663
Broadcast licenses and network affiliation agreements	6,162	6,162
Other	812	812
Accumulated amortization	(1,447)	(2,182)
	\$8,577	\$9,455

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

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

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

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

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

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION (CONTINUED)

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

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

4. INDEBTEDNESS

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

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

BANK CREDIT AGREEMENT

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

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

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

PARTNERSHIP NOTE PAYABLE

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

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

4. INDEBTEDNESS (CONTINUED)

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

PORTAPHONE ACQUISITION DEBT

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

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

Year Ended December 31		
1996	\$	1,390
1997		1,155
1998		1,557
1999		81
2000 and thereafter		627
		-----
	\$	4,810
		-----
		-----

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

5. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION PLAN

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

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

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

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

5. EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

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

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

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

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

401(K) PLAN

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

MANAGEMENT INCENTIVE BONUS PLAN

Phipps maintains an incentive bonus plan in which managers participate in the performance of the division of Phipps which they manage. Eligible employees are selected by the Board of Directors,

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

5. EMPLOYEE BENEFIT PLANS (CONTINUED)

and the bonus formula is established and reviewed annually by the Board of Directors and key members of management. Bonuses are calculated in the year following the year earned, at which time one-half of the calculated bonus is paid as compensation. The remaining portion is deferred and earned by the employee over five years based on a vesting schedule adopted by the Board. Employees become eligible to receive payment of deferred amounts upon full vesting. Deferred amounts are recognized as an expense in the year earned. Expenses under this plan were approximately \$128,000 in 1993, \$170,000 in 1994 and \$233,000 in 1995.

Cumulative amounts vested for the Broadcasting and Paging Operations since the inception of the plan in 1990, total approximately \$303,000 at December 31, 1995 and are included as a current liability in the accompanying financial statements.

6. PRO-FORMA INCOME TAXES

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

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

7. PHIPPS' CORPORATE ALLOCATIONS

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

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

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

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

8. SUMMARY ACTIVITY IN OWNER'S EQUITY

Phipps provides centralized cash management for the Broadcasting and Paging Operations. Substantially all cash receipts are remitted to Phipps and substantially all disbursements are made by Phipps. There are no terms of settlement for interest charges on these intercompany accounts. The amounts due to/from Phipps are included as a part of owner's equity as the Broadcasting and Paging operations are not required to settle these amounts on a current basis.

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

	1993	1994	1995
Balance of the beginning of year	\$13,276	\$14,306	\$15,465
Payments to Phipps	(5,067)	(8,181)	(7,696)
Phipps' purchase of minority interests	-0-	-0-	1,781
Phipps allocations	2,166	2,121	2,895
Net earnings	3,931	7,219	6,349
Balance at the end of year	\$14,306	\$15,465	\$18,794

9. LITIGATION

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

10. COMMITMENTS AND CONTINGENCIES

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

1996	\$922
1997	171
1998 and later	174
	-----
	\$1,267
	-----
	-----

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

1996	\$106
1997	631
1998	515
1999	440
2000	283
	-----
	\$1,975
	-----
	-----

The Paging Operations lease office space, office equipment and paging network towers. The Broadcasting Operations lease land and broadcast towers. The operating leases with unaffiliated entities have various renewal options. Certain of the towers used in the Paging Operations are leased



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

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

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

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

	YEAR ENDED DECEMBER 31,		
	1993	1994	1995
<b>REVENUES</b>			
Broadcasting Operations	\$19,460	\$21,524	\$22,424
Paging Operations	3,788	4,277	4,898
<b>Total revenues</b>	<b>\$23,248</b>	<b>\$25,801</b>	<b>\$27,322</b>
<b>OPERATING PROFIT:</b>			
Broadcasting Operations	\$4,631	\$7,287	\$7,040
Paging Operations	56	381	342
<b>Total operating profit</b>	<b>\$4,687</b>	<b>\$7,668</b>	<b>\$7,382</b>
<b>DEPRECIATION AND AMORTIZATION EXPENSE:</b>			
Broadcasting Operations	\$2,089	\$2,015	\$2,302
Paging Operations	747	657	818
<b>Total depreciation and amortization expense</b>	<b>\$2,836</b>	<b>\$2,672</b>	<b>\$3,120</b>
<b>CAPITAL EXPENDITURES:</b>			
Broadcasting Operations	\$2,429	\$1,515	\$1,216
Paging Operations	1,109	1,838	1,972
<b>Total capital expenditures</b>	<b>\$3,538</b>	<b>\$3,353</b>	<b>\$3,188</b>
<b>IDENTIFIABLE ASSETS (AT END OF YEAR):</b>			
Broadcasting Operations	\$21,003	\$21,059	\$23,036
Paging Operations	3,816	4,239	4,526
<b>Total identifiable assets</b>	<b>\$24,819</b>	<b>\$25,298</b>	<b>\$27,562</b>

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

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 NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, ANY OF THE UNDERWRITERS OR ANY OTHER PERSON. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALES MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES OTHER THAN THE SHARES OF CLASS B COMMON STOCK OFFERED HEREBY, NOR DOES IT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SHARES OF CLASS B COMMON STOCK OFFERED HEREBY TO ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL.

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3,500,000 Shares

GRAY  
 COMMUNICATIONS SYSTEMS, INC.

CLASS B COMMON STOCK

-----  
 PROSPECTUS

-----  
 ALLEN & COMPANY  
 INCORPORATED

J.C. BRADFORD & CO.

J.P. MORGAN & CO.

, 1996  
 -----  
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PART II  
INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 13 OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated expenses and costs (other than underwriting discounts and commissions) expected to be incurred by the Company in connection with the issuance and distribution of the Class B Common Stock. Except for the SEC and NASD filing fees, all expenses have been estimated and are subject to future contingencies.

SEC registration fee	\$26,371
NASD fee	8,148
NYSE listing fee	*
Legal fees and expenses	*
Printing and engraving expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous	*
	-----
Total	\$*
	-----
	-----

- -----  
\* to be filed by amendment

ITEM 14 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Business Corporation Code of the State of Georgia grants corporations incorporated thereunder (such as the Company) the power to indemnify its officers and directors against liability for certain of their acts.

The Company's Articles of Incorporation eliminate the liability of directors to stockholders or the Company for monetary damages arising out of the directors' breach of their fiduciary duty of care. The By-laws of the Company authorize indemnification of its directors, officers, incorporators, employees and agents with respect to certain costs, expenses and amounts incurred in connection with an action, suit or proceeding by reason of the fact that such person was serving as a director, officer, incorporator, employee or agent of the Company.

The Underwriting Agreement provides for reciprocal indemnification between the Company and its controlling persons, on the one hand, and the Underwriters and their controlling persons, on the other hand, against certain liabilities in connection with this offering, including liabilities under the Securities Act.

ITEM 15 RECENT SALES OF UNREGISTERED SECURITIES

On January 3, 1996, Bull Run purchased for \$10 million from the Company (i) an 8% subordinated note in the principal amount of \$10 million due in January 2005 (ii) warrants to purchase 487,500 shares of Class A Common Stock at \$17.88 per share. On September 2, 1994, the Company sold to one institutional investor for \$25 million its note in the principal amount of \$25 million due 2003. The Company believes that the foregoing transactions were exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) of such Act.

- 1\*\* Form of Underwriting Agreement.
- 3.1 Articles of Incorporation of Gray Communications Systems, Inc., as amended (incorporated by references to Exhibit 3 to the Company's Form 10 dated October 7, 1991, as amended on January 29, 1992 and March 2, 1992, and Exhibit 3(i) to the Company's Form 10-K for the fiscal year ended June 30, 1993).
- 3.2 By-Laws of Gray Communications Systems, Inc., as amended (incorporated by references to Exhibit 3(i) to the Company's Form 10 dated October 7, 1991, as amended on January 29, 1992 and March 2, 1992, Exhibit 3(i) to the Company's 10-K for the period ended June 30, 1993 and Exhibit 3(d) of the Company's 10-K for the transition period from July 1, 1993 to December 31, 1993).
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- 10.1 Supplemental pension plan (incorporated by reference to Exhibit 10(a) to the Company's Form 10 filed October 7, 1991, as amended January 29, 1992 and March 2, 1992).
- 10.2 Employment Agreement, between the Company and John T. Williams (incorporated by reference to Exhibit 19 to the Company's Form 10-Q for the quarter ended March 31, 1992).
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- 10.4 Restricted stock agreement between the Company and John T. Williams (incorporated by reference to Exhibit 19(c) to the Company's Form 10-Q for the quarter ended March 31, 1992).
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- 10.10 Capital Accumulation Plan, effective October 1, 1994 (incorporated by reference to Exhibit 10(i) to the 1994 Form 10-K).
- 10.11 Employment Agreement, dated September 3, 1994, between the Company and Ralph W. Gabbard (incorporated by reference to Exhibit 10(j) to the 1994 Form 10-K).
- 10.12 Asset Purchase Agreement, dated March 15, 1996, by and between the Company and Media Acquisition Partners, L.P. (incorporated by reference to Exhibit 10(l) to the 1995 Form 10-K).
- 10.13\*\*\* Warrant, dated January 4, 1996, to purchase 487,500 shares of Common Stock.
- 10.14 Form of amendment to employment agreement between the Company and Ralph W. Gabbard, dated January 1, 1996 (incorporated by reference to the Exhibit 10(m) 1995 Form 10-K).
- 10.15 Indenture for the Notes (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-4338)).

- 10.16 Credit Agreement and first modification of Credit Agreement, dated as of April 22, 1994, between the Company and Bank South, N.A., and Deposit Guaranty National Bank (incorporated by reference to Exhibit 4(i) to the Company's Form 8-K, dated September 2, 1994).
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- 10.21 Fourth modification of Credit Agreement, dated January 27, 1995, between the Company and Bank South, N.A. and Deposit Guaranty National Bank (incorporated by reference to Exhibit 4(f) to the 1994 Form 10-K).
- 10.22 Third Modification of Note Purchase Agreement, dated June 15, 1995, between the Company and Teachers Insurance and Annuity Association (incorporated by reference to Exhibit 4(a) to the Company's Form 10-Q for the quarter ended June 30, 1995).
- 10.23 Form of Master Agreement, dated as of June 13, 1995, between the Company and Society National Bank.
- 10.24 Amendment to Intercreditor Agreement, dated June 15, 1995, by and among the Company, Bank South, N.A., Deposit Guaranty National Bank and Teachers Insurance and Annuity Association (incorporated by reference to Exhibit 4(b) to the Company's form 10-Q for the quarter ended June 30, 1995).
- 10.25 Fourth Modification of Note Purchase Agreement, dated as of January 3, 1996, between the Company and Teachers Insurance Annuity Association (incorporated by reference to Exhibit 4(h) to the Company's Form 10-K for the year ended December 31, 1995 (the "1995 10-K")).
- 10.26 First Consolidated Modification of Credit Agreement, dated as of January 3, 1996, among the Company, Bank South, Deposit Guaranty National Bank and Society National Bank (incorporated by reference to Exhibit 4(i) to the Company's Form 8-K, dated January 18, 1996).
- 10.27 Note Purchase between the Company and Bull Run, dated as of January 3, 1996 (incorporated by reference to Exhibit 4(ii) to the Company's Form 8-K, dated January 18, 1996).
- 10.28\*\*\* Employment Agreement, Dated February 12, 1996 between the Company and Robert A. Beizer
- 10.29\*\* Separation Agreement between the Company and John T. Williams (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (Registration No. 333-4338)).
- 12\*\* Statement re computation of ratios
- 21\*\* List of Subsidiaries
- 23.1\*\* Consent of Ernst & Young LLP for the financial statements for Gray Communications Systems, Inc.
- 23.2\* Consent of Heyman & Sizemore (contained in opinion filed as Exhibit 5)

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Paging Operations of John H. Phipps, Inc.  
23.5\*\* Consent of Deloitte & Touche LLP for certain financial statements of WRDW-TV.  
24.1\*\*\* Power of Attorney

-----  
\* To be filed by amendment  
\*\* Filed herewith

\*\*\* Previously filed

(b) The financial statement schedules filed as a part of this Registration Statement are as follows:

Gray Communications Systems, Inc.:

Report of Independent Auditors  
Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted as the required information is inapplicable or is presented in the financial statements or related notes.

Broadcasting and Paging Operations of John H. Phipps, Inc.:

Report of Independent Auditors  
Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted as the required information is inapplicable or its presented in the financial statements or related notes.

#### ITEM 17 UNDERTAKINGS

Each of the undersigned registrants hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of a registrant pursuant to the provisions described in Item 15, or otherwise, each registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by a registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, each registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned registrant certifies that it has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 3rd day of July, 1996.

GRAY COMMUNICATIONS SYSTEMS, INC.

By: /s/ RALPH W. GABBARD

-----  
 Ralph W. Gabbard  
 PRESIDENT

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
----- /s/ RALPH W. GABBARD ----- Ralph W. Gabbard	President and Director (principal executive officer)	July 3, 1996
----- /s/ WILLIAM A. FIELDER III ----- William A. Fielder III	Vice President and Chief Financial Officer (principal financial officer)	July 3, 1996
----- /s/ Sabra H. Cowart ----- Sabra H. Cowart	Controller and Chief Accounting Officer (principal accounting officer)	July 3, 1996
----- * ----- Richard L. Boger	Director	July 3, 1996
----- * ----- Hilton H. Howell, Jr.	Director	July 3, 1996
----- * ----- William E. Mayher III	Director	July 3, 1996



SIGNATURE

TITLE

DATE

\*

-----  
Howell W. Newton

Director

July 3, 1996

\*

-----  
Robert S. Prather, Jr.

Director

July 3, 1996

\*

-----  
J. Mack Robinson

Director

July 3, 1996

/s/ WILLIAM A. FIELDER

-----  
William A. Fielder

\*Attorney-in-fact

July 3, 1996

## EXHIBIT INDEX

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\* To be filed by amendment  
\*\* Filed herewith

\*\*\* Previously filed

3,500,000 SHARES

GRAY COMMUNICATIONS SYSTEMS, INC.

COMMON STOCK

-----  
UNDERWRITING AGREEMENT  
-----

June \_\_, 1996

THE ROBINSON-HUMPHREY COMPANY, INC.  
ALLEN & COMPANY INCORPORATED  
J.C. BRADFORD & CO.  
J.P. MORGAN SECURITIES INC.

As representatives of the several  
Underwriters named in Schedule I hereto,  
c/o The Robinson-Humphrey Company, Inc.  
3333 Peachtree Road, N.E.  
Atlanta, Georgia 30326

Dear Sirs:

Gray Communications Systems, Inc., a Georgia corporation (the "Company") proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I (the "Underwriters") an aggregate of 3,500,000 shares of common stock, no par value (the "Common Stock"), of the Company (the "Firm Shares"), and, at the election of the Underwriters, subject to the terms and conditions stated herein, to sell to the Underwriters up to 525,000 additional shares of Common Stock (the "Optional Shares") (the Firm Shares and the Optional Shares that the Underwriters elect to purchase pursuant to Section 2 hereof are collectively called the "Shares").

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) A registration statement on Form S-1 (File No. 333-4340) with respect to the Shares, including a prospectus subject to completion, has been filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), and one or more amendments to such registration statement may have been so filed. After the execution of this Agreement, the Company will file with the Commission either (i) if such registration statement, as it may have been amended, has

become effective under the Act and information has been omitted therefrom in accordance with Rule 430A under the Act, either (A) if the Company relies on Rule 434 under the Act, a term sheet relating to the shares that shall identify the preliminary prospectus that it supplements containing such information as is required or permitted by Rules 434, 430A and 424(b) under the Act or (B) if the Company does not rely on Rule 434 under the Act, a prospectus in the form most recently included in an amendment to such registration statement (or, if no such amendment shall have been filed, in such registration statement) with such changes or insertions as are required by Rule 430A or permitted by Rule 424(b) under the Act and as have been provided to and approved by the Representatives, or (ii) if such registration statement, as it may have been amended, has not become effective under the Act, an amendment to such registration statement, including a form of prospectus, a copy of which amendment has been provided to and approved by the Representatives prior to the execution of this Agreement. The Company may also file a related registration statement with the Commission pursuant to Rule 462(b) under the Act for the purpose of registering certain additional shares of Common Stock, which registration statement will be effective upon filing with the Commission. As used in this Agreement, the term "Original Registration Statement" means the registration statement initially filed relating to the Common Stock, as amended at the time when it was or is declared effective, including all financial statement schedules and exhibits thereto and including any information omitted therefrom pursuant to Rule 430A under the Act and included in the Prospectus (as hereinafter defined); the term "Rule 462(b) Registration Statement" means any registration statement filed with the Commission pursuant to Rule 462(b) under the Act (including the Original Registration Statement and any Preliminary Prospectus or Prospectus incorporated therein at the time such Original Registration Statement becomes effective); the term "Registration Statement" includes both the Original Registration Statement and any Rule 462(b) Registration Statement; the term "Preliminary Prospectus" means each prospectus subject to completion included in such registration statement or any amendment or post-effective amendment thereto (including the prospectus subject to completion, if any, included in the Registration Statement at the time it was or is declared effective); the term "Prospectus" means (A) if the Company relies on Rule 434 of the Act, the Term Sheet (as hereinafter defined) relating to the Shares that is first filed pursuant to Rule 424(b)(7) of the Act, together with the Preliminary Prospectus identified therein that such Term Sheet supplements; (B) if the Company does not rely on Rule 434 of the Act, the prospectus first filed with the Commission pursuant to Rule 424(b) under the Act or (C) if no prospectus is required to be so filed, such term means the prospectus included in the Registration Statement; and the term "Term Sheet" means any term sheet that satisfies the requirements of Rule 434 of the Act. Any reference to the "date" of a Prospectus that includes a Term Sheet shall mean the date of such Term Sheet. For purposes of the following representations and warranties, to the extent reference is made to the Prospectus and at the relevant time the Prospectus is not yet in existence, such reference shall be deemed to be to the most recent Preliminary Prospectus.

(b) No order preventing or suspending the use of any Preliminary Prospectus has been issued and no proceeding for that purpose has been instituted or threatened by the Commission or the securities authority of any state or other jurisdiction. If the Registration Statement has become effective under the Act, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceeding for that purpose has been instituted or threatened or, to the best knowledge of the Company, contemplated by the Commission or the securities authority of any state or other jurisdiction.

(c) When any Preliminary Prospectus was filed with the Commission it (i) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (ii) did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. When the Registration Statement or any amendment thereto was or is declared effective, and at each Time of Delivery (as hereinafter defined), it (i) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (ii) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading. When (A) the Prospectus or any amendment or supplement thereto is filed with the Commission pursuant to Rule 424(b) (or, if the Prospectus or such amendment or supplement is not required to be so filed, when the Registration Statement or the amendment thereto containing such amendment or supplement to the Prospectus was or is declared effective) or (B) any Term Sheet which is a part of the Prospectus is filed with the Commission pursuant to Rule 434, and at each Time of Delivery, the Prospectus, as amended or supplemented at any such time, (i) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (ii) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing provisions of this paragraph (c) do not apply to statements or omissions made in any Preliminary Prospectus, the Registration Statement or any amendment thereto the Prospectus or any amendment or supplement thereto, or any Term Sheet in reliance upon and in conformity with written information furnished to the Company by any Underwriter through you specifically for use therein.

(d) If the Company has elected to rely on Rule 462(b) and the Rule 462(b) Registration Statement has not been declared effective (i) the Company has filed a Rule 462(b) Registration Statement in compliance with and that is effective upon filing pursuant to Rule 462(b) and has received confirmation of its receipt; and (ii) the Company has given irrevocable instructions for transmission of the applicable filing fee in connection with the

filing of the Rule 462(b) Registration Statement, in compliance with Rule 111 promulgated under the Act, or the Commission has received payment of such filing fee.

(e) The descriptions in the Registration Statement and the Prospectus of statutes, legal and governmental proceedings or contracts and other documents are accurate and fairly present the information required to be shown; and there are no statutes or legal or governmental proceedings required to be described in the Registration Statement or the Prospectus that are not described as required and no contracts or documents of a character that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described and filed as required.

(f) Each of the Company and its subsidiaries has been duly incorporated, is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and has full power and authority (corporate and other) to own or lease its properties and conduct its business as described in the Prospectus. The Company has full power and authority (corporate and other) to enter into this Agreement and to perform its obligations hereunder. Each of the Company and its subsidiaries is duly qualified to transact business as a foreign corporation and is in good standing under the laws of each other jurisdiction in which it owns or leases properties, or conducts any business, so as to require such qualification, except where the failure to so qualify would not have a material adverse effect on the financial position, results of operations or business of the Company and its subsidiaries.

(g) The Company's authorized, issued and outstanding capital stock is as disclosed in the Prospectus. All of the issued shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and conform to the description of the capital stock contained in the Prospectus. None of the issued shares of capital stock of the Company or any of its subsidiaries has been issued or is owned or held in violation of any preemptive rights of shareholders, and no person or entity (including any holder of outstanding shares of capital stock of the Company or its subsidiaries) has any preemptive or other rights to subscribe for any of the Shares.

(h) All of the issued shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned beneficially by the Company free and clear of all liens, security interests, pledges, charges, encumbrances, defects, shareholders' agreements, voting trusts, equities or claims of any nature whatsoever. Other than the subsidiaries listed on Exhibit 21 to the Registration Statement, the Company does not own, directly or indirectly, any capital stock or other equity securities of any other corporation or any ownership interest in any partnership, joint venture or other association other than as disclosed in the Prospectus.

(i) Except as disclosed in the Prospectus, there are no outstanding (i) securities or obligations of the Company or any of its subsidiaries convertible into or exchangeable for



any capital stock of the Company or any such subsidiary, (ii) warrants, rights or options to subscribe for or purchase from the Company or any such subsidiary any such capital stock or any such convertible or exchangeable securities or obligations, or (iii) obligations of the Company or any such subsidiary to issue any shares of capital stock, any such convertible or exchangeable securities or obligations, or any such warrants, rights or options.

(j) Since the date of the most recent audited financial statements included in the Prospectus, neither the Company nor any of its subsidiaries has sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as disclosed in or contemplated by the Prospectus.

(k) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) neither the Company nor any of its subsidiaries has incurred any liabilities or obligations, direct or contingent, or entered into any transactions, not in the ordinary course of business, that are material to the Company and its subsidiaries, (ii) the Company has not purchased any of its outstanding capital stock or declared, paid or otherwise made any dividend or distribution of any kind on its capital stock, (iii) there has not been any change in the capital stock, long-term debt or short-term debt of the Company or any of its subsidiaries, and (iv) there has not been any material adverse change, or any development involving a prospective material adverse change, in or affecting the financial position, results of operations or business of the Company and its subsidiaries, in each case other than as disclosed in or contemplated by the Prospectus.

(l) The Shares have been duly authorized and, when issued and delivered against payment therefor as provided herein, will be validly issued and fully paid and nonassessable and will conform to the description of the Common Stock contained in the Prospectus; and the certificates evidencing the Shares will comply with all applicable requirements of Georgia law.

(m) Except as disclosed in the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement (or any such right has been effectively waived) or any securities being registered pursuant to any other registration statement filed by the Company under the Act.

(n) All offers and sales of the Company's capital stock prior to the date hereof were at all relevant times duly registered under the Act or exempt from the registration requirements of the Act by reason of Sections 3(b), 4(2) or 4(6) thereof and were duly registered or the subject of an available exemption from the registration requirements of the applicable state securities or blue sky laws.

(o) Neither the Company nor any of its subsidiaries is, or with the giving of notice or passage of time or both would be, in violation of its Articles of Incorporation or Bylaws or in default under any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or to which any of their respective properties or assets are subject.

(p) The issue and sale of the Shares and the performance of this Agreement and the consummation of the transactions herein contemplated will not conflict with, or (with or without the giving of notice or the passage of time or both) result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or to which any of their respective properties or assets is subject, nor will such action conflict with or violate any provision of (i) the Articles of Incorporation or Bylaws of the Company or any of its subsidiaries; (ii) any statute, rule or regulation, including, without limitation, the Communications Act of 1934, as amended (the "Communications Act"), the Telecommunications Act of 1996 (the "Telecommunications Act") and the rules and regulations of the Federal Communications Commission (the "FCC") thereunder; or (iii) any order, judgment or decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties or assets, including, without limitation, the FCC. Further, the issue and sale of the Shares and the performance of this Agreement and the consummation of the transactions herein contemplated shall not result in the termination or revocation of any of the permits, licenses, approvals, orders, certificates, franchises or authorizations of governmental or regulatory authorities, including those relating to the Communications Act, the Telecommunications Act or the rules and regulations of the FCC, owned or held by the Company or any of its subsidiaries in order to conduct the publishing or broadcasting operations of the television stations or publications owned or operated by them (collectively the "Licenses") or result in any other material impairment of the rights of the holder of such License.

(q) The Company and its subsidiaries have good and marketable title in fee simple to all real property, if any, and good title to all personal property owned by them, in each case free and clear of all liens, security interests, pledges, charges, encumbrances, mortgages and defects, except such as are disclosed in the Prospectus or such as do not materially and adversely affect the value of such property and do not interfere with the use made or proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company or any of its subsidiaries are held under valid, subsisting and enforceable leases, with such exceptions as are disclosed in the Prospectus or are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company or such subsidiary.

(r) No consent, approval, authorization, order or declaration of or from, or registration, qualification or filing with, any court or governmental agency or body, including, but not limited to, the FCC, is required for the issue and sale of the Shares or the consummation of the transactions contemplated by this Agreement, except the registration of the Shares under the Act (which, if the Registration Statement is not effective as of the time of execution hereof, shall be obtained as provided in this Agreement) and such as may be required under state securities or blue sky laws in connection with the offer, sale and distribution of the Shares by the Underwriters.

(s) Other than as disclosed in the Prospectus, there is no litigation, arbitration, claim, proceeding (formal or informal) or investigation pending or threatened (or any basis therefor) in which the Company or any of its subsidiaries is a party or of which any of their respective properties or assets are the subject which, if determined adversely to the Company or any such subsidiary, would individually or in the aggregate have a material adverse effect on the financial position, results of operations or business of the Company and its subsidiaries. Neither the Company nor any of its subsidiaries is in violation of, or in default with respect to, any statute, rule, regulation, order, judgment or decree, except as described in the Prospectus or such as do not and will not individually or in the aggregate have a material adverse effect on the financial position, results of operations or business of the Company and its subsidiaries, and neither the Company nor any of its subsidiaries is required to take any action in order to avoid any such violation or default.

(t) Ernst & Young LLP, who have certified certain financial statements of the Company and its consolidated subsidiaries, the Phipps Business and WRDW-TV for the year ended December 31, 1995, and Deloitte & Touche LLP, who have certified certain financial statements of WRDW-TV for the years ended December 31, 1994 and 1993, are each, and were each during the periods covered by their reports included in the Registration Statement and the Prospectus, independent public accountants as required by the Act and the rules and regulations of the Commission thereunder.

(u) The consolidated financial statements and schedules (including the related notes) of the Company and its consolidated subsidiaries included in the Registration Statement, the Prospectus or any Preliminary Prospectus were prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved and fairly present the financial position and results of operations of the Company and its subsidiaries, on a consolidated basis, at the dates and for the periods presented. The selected financial data set forth under the caption "Selected Historical Financial Data" in the Prospectus fairly present, on the basis stated in the Prospectus, the information included therein. The unaudited condensed, combined pro forma financial statements included in the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act and the Rules and Regulations and management of the Company believes (A) the assumptions underlying the pro forma adjustments are reasonable, (B) that such adjustments have been properly applied to the historical amounts in the compilation of

such statements and (C) that such statements fairly present, with respect to the Company and its consolidated subsidiaries, the condensed, combined pro forma financial position and results of operations and the other information purported to be shown therein at the respective dates or for the respective periods therein specified. The financial statements and schedules (including the related notes) of each of WRDW-TV and the Broadcasting and Paging Operations of John H. Phipps, Inc. included in the Registration Statement, the Prospectus or any Preliminary Prospectus were prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved and fairly present the financial position and results of WRDW-TV or the Broadcasting and Paging Operations of John H. Phipps, Inc., as the case may be, at the dates and for the periods presented.

(v) This Agreement has been duly authorized, executed and delivered by the Company and constitutes the valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject, as to enforcement, to applicable bankruptcy, insolvency, reorganization and moratorium laws and other laws relating to or affecting the enforcement of creditors' rights generally and to general equitable principles and except as the enforceability of rights to indemnity and contribution under this Agreement may be limited under applicable securities laws or the public policy underlying such laws.

(w) Neither the Company nor any of its officers, directors or affiliates has (i) taken, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares or (ii) since the filing of the Registration Statement (A) sold, bid for, purchased or paid anyone any compensation for soliciting purchases of, the Shares or (B) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company.

(x) The Company has obtained for the benefit of the Company and the Underwriters from Bull Run Corporation and its affiliates and each of the Company's directors and officers a written agreement that for a period of 180 days from the date of the Prospectus such director or officer will not, without your prior written consent, offer, pledge, sell, contract to sell, grant any option for the sale of, or otherwise dispose of (or announce any offer, pledge, sale, grant of an option to purchase or other disposition), directly or indirectly, any shares of Class A Common Stock, no par value (the "Class A Common Stock") or Common Stock or securities convertible into, or exercisable or exchangeable for, shares of Class A Common Stock or Common Stock.

(y) Neither the Company, any of its subsidiaries, nor any director, officer, agent, employee or other person associated with or acting on behalf of the Company or any such subsidiary has, directly or indirectly: used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; made any

unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds; violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(z) The operations of the Company and its subsidiaries with respect to any real property currently leased or owned or by any means controlled by the Company or any subsidiary (the "Real Property") are in compliance with all federal, state, and local laws, ordinances, rules, and regulations relating to occupational health and safety and the environment (collectively, "Laws"), and the Company and its subsidiaries have all licenses, permits and authorizations necessary to operate under all Laws and are in compliance with all terms and conditions of such licenses, permits and authorizations; neither the Company nor any subsidiary has authorized, conducted or has knowledge of the generation, transportation, storage, use, treatment, disposal or release of any hazardous substance, hazardous waste, hazardous material, hazardous constituent, toxic substance, pollutant, contaminant, petroleum product, natural gas, liquified gas or synthetic gas defined or regulated under any environmental law on, in or under any Real Property; and there is no pending or threatened claim, litigation or any administrative agency proceeding, nor has the Company or any subsidiary received any written or oral notice from any governmental entity or third party, that: (i) alleges a violation of any Laws by the Company or any subsidiary; (ii) alleges the Company or any subsidiary is a liable party under the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 ET SEQ. or any state superfund law; (iii) alleges possible contamination of the environment by the Company or any subsidiary; or (iv) alleges possible contamination of the Real Property.

(aa) The Company and its subsidiaries own or have the right to use all patents, patent applications, trademarks, trademark applications, tradenames, service marks, copyrights, franchises, trade secrets, proprietary or other confidential information and intangible properties and assets (collectively, "Intangibles") necessary to their respective businesses as presently conducted or as the Prospectus indicates the Company or such subsidiary proposes to conduct; to the best knowledge of the Company, neither the Company nor any subsidiary has infringed or is infringing, and neither the Company nor any subsidiary has received notice of infringement with respect to, asserted Intangibles of others; and, to the best knowledge of the Company, there is no infringement by others of Intangibles of the Company or any of its subsidiaries.

(bb) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a comparable cost, except as disclosed in the Prospectus.

(cc) Each of the Company and its subsidiaries makes and keeps accurate books and records reflecting its assets and maintains internal accounting controls which provide reasonable assurance that (i) transactions are executed in accordance with management's authorization, (ii) transactions are recorded as necessary to permit preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles and to maintain accountability for the assets of the Company, (iii) access to the assets of the Company and each of its subsidiaries is permitted only in accordance with management's authorization, and (iv) the recorded accountability for assets of the Company and each of its subsidiaries is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(dd) No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distributions on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary or from transferring any of such subsidiary's property or assets to the Company or any other subsidiary of the Company, except as disclosed in the Prospectus.

(ee) The Company and its subsidiaries have filed all foreign, federal, state and local tax returns that are required to be filed by them and have paid all taxes shown as due on such returns as well as all other taxes, assessments and governmental charges that are due and payable; and no deficiency with respect to any such return has been assessed or proposed.

(ff) The Company is not, will not become as a result of the transactions contemplated hereby, and does not intend to conduct its business in a manner that would cause it to become, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940.

(gg) Each of the Company and its subsidiaries has all necessary Licenses and has made all declarations and filings with all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals, to own, lease, license and use its properties and assets and to conduct its business in the manner described in the Prospectus, except to the extent that the failure to obtain or file would not have a material adverse effect on the Company and its subsidiaries, taken as a whole. The Licenses issued by the FCC are valid and in full force and effect with no restrictions or qualifications which would have a material adverse effect on the Company and its subsidiaries, taken as a whole. The Company and its subsidiaries are not in violation of any statutes, orders, rules and regulations relating to or affecting the properties, businesses and Licenses of the Company and its subsidiaries and are not in breach or in violation of the Licenses, the Communications Act, the Telecommunications Act or any orders, rules and regulations of the FCC, which in any such case would have a material adverse effect on the Company and its subsidiaries, taken as a whole. No event has occurred which permits, or with notice or

lapse of time or both would permit, and no legal or governmental proceeding has been instituted or threatened which could cause, the revocation or termination of any of the Licenses or which might result in any other impairment or modification of the rights of the Company and its subsidiaries therein which in any such case would have a material adverse effect on the Company and its subsidiaries, taken as a whole. Except as described in the Prospectus, the Company has no reason to believe that any License issued by the FCC will not be renewed in the ordinary course.

(hh) The affiliation agreements between each of the broadcast television stations of the Company and its subsidiaries and NBC and CBS, as applicable, have been duly authorized, executed and delivered by the Company and the subsidiaries, as applicable, and are the valid and legally binding obligations of the respective parties thereto and the description of such affiliation agreements in the Prospectus under the caption "Business-Network Affiliation of the Stations" is a fair and accurate summary of the terms thereof.

(ii) The execution and delivery by the Company of, and the performance by the Company of its obligations under the Asset Purchase Agreement, dated March 15, 1996, by and between the Company and Media Acquisition Partners, L.P. (the "Phipps Agreement") and the Asset Purchase Agreement dated \_\_\_\_\_, 1996 by and between the Company and \_\_\_\_\_ (the "KTVE Agreement"), did not or will not result in a violation of the Communications Act, the Telecommunications Act or any order, rule or regulation of the FCC.

(jj) Other than any consent, approval, authorization, order, registration or qualification required under the Communications Act, the Telecommunications Act or the rules and regulations of the FCC, no consent, approval, authorization, order, registration or qualification is required for the execution and delivery by the Company of, and the performance by the Company of its obligations under the Phipps Agreement and the KTVE Agreement.

2. PURCHASE AND SALE OF SHARES. Subject to the terms and conditions herein set forth, (a) the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price of \$\_\_\_\_\_ per share, the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto, and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at the purchase price per share set forth in clause (a) of this Section 2, that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction, the numerator of which is the maximum number of Optional Shares that such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I

hereto and the denominator of which is the maximum number of the Optional Shares that all of the Underwriters are entitled to purchase hereunder.

The Company hereby grants to the Underwriters the right to purchase at their election in whole or in part from time to time up to 525,000 Optional Shares, at the purchase price per share set forth in clause (a) in the paragraph above, for the sole purpose of covering over-allotments in the sale of Firm Shares. Any such election to purchase Optional Shares may be exercised by written notice from you to the Company, given from time to time within a period of 30 calendar days after the date of this Agreement and setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as hereinafter defined) or, unless you and the Company otherwise agree in writing, earlier than two or later than ten business days after the date of such notice. In the event you elect to purchase all or a portion of the Optional Shares, the Company agrees to furnish or cause to be furnished to you the certificates, letters and opinions, and to satisfy all conditions, set forth in Section 7 hereof at each Subsequent Time of Delivery (as hereinafter defined).

3. OFFERING BY THE UNDERWRITERS. Upon the authorization by you of the release of the Shares, the several Underwriters propose to offer the Shares for sale upon the terms and conditions disclosed in the Prospectus.

4. DELIVERY OF SHARES; CLOSING. Certificates in definitive form for the Shares to be purchased by each Underwriter hereunder, and in such denominations and registered in such names as The Robinson-Humphrey Company, Inc. may request upon at least 48 hours' prior notice to the Company shall be delivered by or on behalf of the Company to you for the account of such Underwriter, against payment by such Underwriter on its behalf of the purchase price therefor by official bank check or checks (payable in next day funds) drawn on an Atlanta, Georgia bank, payable to the order of the Company in next day available funds. The closing of the sale and purchase of the Shares shall be held at the offices of King & Spalding, 191 Peachtree Street, Atlanta, Georgia 30303, except that physical delivery of such certificates shall be made at the office of The Depository Trust Company, 55 Water Street, New York, New York 10041. The time and date of such delivery and payment shall be, with respect to the Firm Shares, at 10:00 a.m., Atlanta time, on the third full business day after the execution of this Agreement or at such other time and date as you and the Company may agree upon in writing, and, with respect to the Optional Shares, at 10:00 a.m., Atlanta time, on the date specified by you in the written notice given by you of the Underwriters' election to purchase all or part of such Optional Shares, or at such other time and date as you and the Company may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "First Time of Delivery," such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called a "Subsequent Time of Delivery," and each such time and date for delivery is herein called a "Time of Delivery." The Company will make such certificates available for checking and packaging at least 24 hours prior to each Time of Delivery at the office of The Depository Trust Company, 55 Water Street, New York, New York 10041 or



at such other location in New York, New York specified by you in writing at least 48 hours prior to such Time of Delivery.

5. COVENANTS OF THE COMPANY. The Company covenants and agrees with each of the Underwriters:

(a) If the Registration Statement has been declared effective prior to the execution and delivery of this Agreement, the Company will file either (A) the Prospectus with the Commission pursuant to and in accordance with subparagraph (1) (or, if applicable and if consented to by you, subparagraph (4)) of Rule 424(b) or (B) a Term Sheet with the Commission pursuant to and in accordance with Rule 434 not later than the earlier of (i) the second business day following the execution and delivery of this Agreement or (ii) the fifth business day after the date on which the Registration Statement is declared effective. The Company will advise you promptly of any such filing pursuant to Rule 424(b) or Rule 434.

(b) The Company will not file with the Commission the Prospectus or the amendment referred to in the second sentence of Section 1(a) hereof, any amendment or supplement to the Prospectus, any Term Sheet, any amendment to the Registration Statement or any Rule 462(b) Registration Statement unless you have received a reasonable period of time to review any such proposed amendment or supplement and consented to the filing thereof and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective as promptly as possible. Upon the request of the Representatives or counsel for the Underwriters, the Company will promptly prepare and file with the Commission, in accordance with the rules and regulations of the Commission, any amendments to the Registration Statement or any amendments or supplements to the Prospectus or any Term Sheet that may be necessary or advisable in connection with the distribution of the Shares by the several Underwriters and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective as promptly as possible. If required, the Company will file any amendment or supplement to the Prospectus or any Term Sheet with the Commission in the manner and within the time period required by Rule 424(b) and Rule 434, as applicable, under the Act. The Company will advise the Representatives, promptly after receiving notice thereof, of the time when the Original Registration Statement or any amendment thereto or any Rule 462(b) Registration Statement has been filed or declared effective or the Prospectus or any amendment or supplement thereto has been filed and will provide evidence to the Representatives of each such filing or effectiveness.

(c) The Company will advise you promptly after receiving notice or obtaining knowledge of (i) the issuance by the Commission of any stop order suspending the effectiveness of the Original Registration Statement or any Rule 462(b) Registration Statement or any part thereof or any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, (ii) the suspension of the qualification of the Shares for offer or sale in any jurisdiction or of the

initiation or threatening of any proceeding for any such purpose, or (iii) any request made by the Commission or any securities authority of any other jurisdiction for amending the Original Registration Statement or any Rule 462(b) Registration Statement, for amending or supplementing the Prospectus or for additional information. The Company will use its best efforts to prevent the issuance of any such stop order and, if any such stop order is issued, to obtain the withdrawal thereof as promptly as possible.

(d) If the delivery of a prospectus relating to the Shares is required under the Act at any time prior to the expiration of nine months after the date of the Prospectus and if at such time any events have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or if for any reason it is necessary during such same period to amend or supplement the Prospectus to comply with the Act or the rules and regulations thereunder, the Company will promptly notify you and upon your request (but at the Company's expense) prepare and file with the Commission an amendment or supplement to the Prospectus that corrects such statement or omission or effects such compliance and will furnish without charge to each Underwriter and to any dealer in securities as many copies of such amended or supplemented Prospectus as you may from time to time reasonably request. If the delivery of a prospectus relating to the Shares is required under the Act at any time nine months or more after the date of the Prospectus, upon your request but at the expense of such Underwriter, the Company will prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act. Neither your consent to, nor the Underwriters' delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 7.

(e) The Company promptly from time to time will take such action as you may reasonably request to qualify the Shares for offering and sale under the securities or blue sky laws of such jurisdictions as you may request and will continue such qualifications in effect for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction.

(f) The Company will promptly provide you, without charge, (i) three manually executed copies of the Original Registration Statement and any Rule 462(b) Registration Statement as originally filed with the Commission and of each amendment thereto, (ii) for each other Underwriter a conformed copy of the Original Registration Statement and any Rule 462(b) Registration Statement as originally filed and of each amendment thereto, without exhibits, and (iii) so long as a prospectus relating to the Shares is required to be delivered under the Act, as many copies of each Preliminary Prospectus or the Prospectus or any amendment or supplement thereto as you may reasonably request.

(g) As soon as practicable, but in any event not later than the last day of the thirteenth month after the later of the effective date of the Original Registration Statement and any Rule 462(b) Registration Statement, the Company will make generally available to its security holders an earnings statement of the Company and its subsidiaries, if any, covering a period of at least 12 months beginning after the later of the effective date of the Original Registration Statement and any Rule 462(b) Registration Statement (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations thereunder.

(h) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, the Company will not, without your prior written consent, offer, pledge, issue, sell, contract to sell, grant any option for the sale of, or otherwise dispose of (or announce any offer, pledge, sale, grant of an option to purchase or other disposition), directly or indirectly, any shares of Class A Common Stock or Common Stock or securities convertible into, exercisable or exchangeable for, shares of Class A Common Stock or Common Stock, except as provided in Section 2 and except for the issuance of Class A Common Stock or Common Stock upon the exercise of stock options or warrants outstanding on the date of this Agreement to the extent that such stock options or warrants are disclosed in the Prospectus.

(i) During a period of five years from the later of the effective date of the Original Registration Statement or any Rule 462(b) Registration Statement, the Company will furnish to you and, upon request, to each of the other Underwriters, without charge, (i) copies of all reports or other communications (financial or other) furnished to shareholders, (ii) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange, and (iii) such additional information concerning the business and financial condition of the Company and its subsidiaries, if any, as you may reasonably request.

(j) Neither the Company nor any of its officers, directors or affiliates will (i) take, directly or indirectly, prior to the termination of the underwriting syndicate contemplated by this Agreement, any action designed to cause or to result in, or that might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Shares, (ii) sell, bid for, purchase or pay anyone any compensation for soliciting purchases of, the Shares or (iii) pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company.

(k) The Company will apply the net proceeds from the offering in the manner set forth under "Use of Proceeds" in the Prospectus.

(l) The Company will cause the Shares to be listed on the New York Stock Exchange, subject to notice of issuance, at each Time of Delivery and for at least one year from the date hereof.

(m) If at any time during the period beginning on the date the Registration Statement becomes effective and ending on the later of (i) the date 30 days after such effective date and (ii) the date that is the earlier of (A) the date on which the Company first files with the Commission a Quarterly Report on Form 10-Q after such effective date and (B) the date on which the Company first issues a quarterly financial report to shareholders after such effective date, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your reasonable opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates an amendment of or supplement to the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(n) If the Company elects to rely upon Rule 462(b), the Company shall both file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) and pay the applicable fees in accordance with Rule 111 promulgated under the Act by the earlier of (i) 10:00 P.M. Eastern time on the date of this Agreement and (ii) the time confirmations are sent or given, as specified by Rule 462(b)(2).

6. EXPENSES. The Company will pay all costs and expenses incident to the performance of its obligations under this Agreement, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated pursuant to Section 10 hereof, including without limitation all costs and expenses incident to (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and, if applicable, filing of the Original Registration Statement (including all amendments thereto), any Rule 462(b) Registration Statement, any Preliminary Prospectus, the Prospectus and any amendments and supplements thereto, this Agreement and any blue sky memoranda; (ii) the delivery of copies of the foregoing documents to the Underwriters; (iii) the filing fees of the Commission and the National Association of Securities Dealers, Inc. relating to the Shares; (iv) the preparation, issuance and delivery to the Underwriters of any certificates evidencing the Shares, including transfer agent's and registrar's fees; (v) the qualification of the Shares for offering and sale under state securities and blue sky laws, including filing fees and fees and disbursements of counsel for the Underwriters relating thereto; (vi) any listing of the securities on the New York Stock Exchange and (vii) any expenses for travel, lodging and meals incurred by the Company and any of its officers, directors and employees in connection with any meetings with prospective investors in the Shares. It is understood, however, that, except as provided in this Section, Section 8 and Section 10 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses relating to the offer and sale of the Shares.

7. CONDITIONS OF THE UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters hereunder to purchase and pay for the Shares to be delivered at each Time of Delivery shall be subject, in their discretion, to the accuracy of the representations and warranties of the Company contained herein as of the date hereof and as of such Time of Delivery, to the accuracy of the statements of Company officers made pursuant to the provisions hereof, to the performance by the Company of its covenants and agreements hereunder, and to the following additional conditions precedent:

(a) If the Original Registration Statement as amended to date has not become effective prior to the execution of this Agreement, such Original Registration Statement and, if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have been declared effective not later than the earlier of (i) 11:00 a.m., Atlanta time, on the date of this Agreement and (ii) the time confirmations are sent or given as specified by Rule 462(b)(2), or, with respect to the Original Registration Statement such later date and/or time as shall have been consented to by you in writing. The Prospectus and any amendment or supplement thereto or a Term Sheet shall have been filed with the Commission pursuant to Rule 424(b) or Rule 434, as applicable, within the applicable time period prescribed for such filing and in accordance with Section 5(a) of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement, respectively, or any part thereof shall have been issued and no proceedings for that purpose shall have been instituted, threatened or, to the knowledge of the Company and the Representatives, contemplated by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction.

(b) King & Spalding, counsel for the Underwriters, shall have furnished to you such opinion or opinions, dated such Time of Delivery, with respect to the incorporation of the Company, the validity of the Shares being delivered at such Time of Delivery, the Registration Statement, the Prospectus, and other related matters as you may reasonably request, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(c) You shall have received an opinion, dated such Time of Delivery, of Proskauer Rose Goetz & Mendelsohn LLP, counsel for the Company in form and substance satisfactory to you and your counsel, to the effect that:

(i) The Company has the corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and to enter into this Agreement and perform its obligations hereunder. The Company is duly qualified to transact business as a foreign corporation and is in good standing under the laws of each other jurisdiction in which it owns or leases property, or conducts any business, so as to require such

qualification, except where the failure to so qualify would not have a material adverse effect on the financial position, results of operations or business of the Company and its subsidiaries.

(ii) Each of the subsidiaries of the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and has the corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus. Each such subsidiary is duly qualified to transact business as a foreign corporation and is in good standing under the laws of each other jurisdiction in which it owns or leases property, or conducts any business, so as to require such qualification, except where the failure to so qualify would not have a material adverse effect on the financial position, results of operations or business of the Company and its subsidiaries.

(iii) The Company's authorized, issued and outstanding capital stock is as disclosed in the Prospectus. All of the issued shares of capital stock of the Company conform to the description of the capital stock contained in the Prospectus. None of the issued shares of capital stock of the Company or any of its subsidiaries has been issued or is owned or held in violation of any preemptive rights of shareholders, and no person or entity (including any holder of outstanding shares of capital stock of the Company or its subsidiaries) has any preemptive or other rights to subscribe for any of the Shares.

(iv) All of the issued shares of capital stock of each of the Company's subsidiaries are owned beneficially by the Company free and clear of all liens, security interests, pledges, charges, encumbrances, shareholders' agreements, voting trusts, defects, equities or claims of any nature whatsoever. Other than the subsidiaries listed on Exhibit 21 to the Registration Statement, the Company does not own, directly or indirectly, any capital stock or other equity securities of any other corporation or any ownership interest in any partnership, joint venture or other association.

(v) Except as disclosed in the Prospectus, there are no outstanding (A) securities or obligations of the Company or any of its subsidiaries convertible into or exchangeable for any capital stock of the Company or any such subsidiary, (B) warrants, rights or options to subscribe for or purchase from the Company or any such subsidiary any such capital stock or any such convertible or exchangeable securities or obligations, or (C) obligations of the Company or any such subsidiary to issue any shares

of capital stock, any such convertible or exchangeable securities or obligations, or any such warrants, rights or options.

(vi) The Shares, when issued and delivered against payment therefor as provided herein, will conform to the description of the Common Stock contained in the Prospectus; the Shares have been listed, subject to notice of issuance, on the New York Stock Exchange.

(vii) Except as disclosed in the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement (or any such right has been effectively waived) or in any securities being registered pursuant to any other registration statement filed by the Company under the Act.

(viii) Neither the Company nor any of its subsidiaries is, or with the giving of notice or passage of time or both, would be, in violation of its Articles of Incorporation or Bylaws or in default under any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any such subsidiary is a party or to which any of their respective properties or assets is subject.

(ix) The issue and sale of the Shares being issued at such Time of Delivery and the performance of this Agreement and the consummation of the transactions herein contemplated will not conflict with, or (with or without the giving of notice or the passage of time or both) result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any such subsidiary is a party or to which any of their respective properties or assets is subject, nor will such action conflict with or violate any provision of the Articles of Incorporation or Bylaws of the Company or any of its subsidiaries or any statute, rule or regulation or any order, judgment or decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties or assets.

(x) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good title to all personal property owned by them, in each case free and clear of all liens, security interests,

pledges, charges, encumbrances, mortgages and defects except such as are disclosed in the Prospectus or such as do not materially and adversely affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company or any of its subsidiaries are held by the Company or such subsidiary under valid, subsisting and enforceable leases with such exceptions as are disclosed in the Prospectus or are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company or such subsidiary.

(xi) No consent, approval, authorization, order or declaration of or from, or registration, qualification or filing with, any court or governmental agency or body is required for the issue and sale of the Shares or the consummation of the transactions contemplated by this Agreement, except the registration of the Shares under the Act and such as may be required under state securities or blue sky laws in connection with the offer, sale and distribution of the Shares by the Underwriters.

(xii) To such counsel's knowledge and other than as disclosed in or contemplated by the Prospectus, there is no litigation, arbitration, claim, proceeding (formal or informal) or investigation pending or threatened (or any basis therefor) in which the Company or any of its subsidiaries is a party or of which any of their respective properties or assets is the subject which, if determined adversely to the Company or any such subsidiary, would individually or in the aggregate have a material adverse effect on the financial position, results of operations or business of the Company and its subsidiaries; and, to such counsel's knowledge, neither the Company nor any of its subsidiaries is in violation of, or in default with respect to, any statute, rule, regulation, order, judgment or decree, except as described in the Prospectus, nor is the Company or any subsidiary required to take any action in order to avoid any such violation or default.

(xiii) This Agreement has been duly authorized, executed and delivered by the Company.

(xiv) The Registration Statement, any Rule 462(b) Registration Statement and the Prospectus and each amendment or supplement thereto (other than the financial statements and related schedules therein, as to which such counsel need express no opinion), as of their respective effective or issue dates, complied as to form in all material respects with the requirements of the Act and the rules and regulations thereunder. The descriptions in the Registration Statement and the Prospectus of statutes,



legal and governmental proceedings or contracts and other documents are accurate and fairly present the information required to be shown; and such counsel do not know of any statutes or legal or governmental proceedings required to be described in the Registration Statement, any Rule 462(b) Registration Statement or Prospectus that are not described as required or of any contracts or documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement which are not described and filed as required.

(xv) Each of the Registration Statement and any Rule 462(b) Registration Statement is effective under the Act; any required filing of the Prospectus or any Term Sheet pursuant to Rule 424(b) or Rule 434, as applicable, has been made in the manner and within the time period required by Rule 424(b) or Rule 434, as applicable; and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement, respectively, or any part thereof has been issued and, to such counsel's knowledge, no proceedings for that purpose have been instituted or threatened or are contemplated by the Commission.

(xvi) The Company is not, and will not be as a result of the consummation of the transactions contemplated by this Agreement, an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940.

(xvii) If the Company elects to rely upon Rule 434, the Prospectus is not "materially different", as such term is used in Rule 434, from the prospectus included in the Registration Statement at the time of its effectiveness or an effective post-effective amendment thereto (including such information that is permitted to be omitted pursuant to Rule 430A).

(xviii) the execution and delivery by the Company of, and the performance by the Company of its obligations under the Asset Purchase Agreement, dated March 15, 1996, by and between the Company and Media Acquisition Partners, L.P. (the "Phipps Agreement") and the Asset Purchase Agreement dated \_\_\_\_\_, 1996 by and between the Company and \_\_\_\_\_ (the "KTVE Agreement"), did not or will not result in a violation of the Communications Act, the Telecommunications Act or any order, rule or regulation of the FCC.

(xviii) other than any consent, approval, authorization, order, registration or qualification required under the Communications Act, the Telecommunications Act or the rules and regulations of the FCC, no

consent, approval, authorization, order, registration or qualification is required for the execution and delivery by the Company of, and the performance by the Company of its obligations under the Phipps Agreement and the KTVE Agreement.

(xx) the Company and its subsidiaries are the holders of the Licenses issued by the FCC listed in an attachment to such opinion (the "FCC Licenses"), all of which are validly issued by the FCC and in full force and effect, with no material restrictions or qualifications other than as described in the Prospectus and to the best of such counsel's knowledge, such FCC Licenses constitute all of the FCC Licenses necessary for the Company and the Subsidiaries to own their properties and to conduct their businesses in the manner and to the full extent now operated or proposed to be operated as described in the Prospectus.

(xxi) to the best of such counsel's knowledge, the business and operations of the Company and its subsidiaries comply in all material respects with the Communications Act, the Telecommunications Act and all published orders, rules and regulations of the FCC.

(xxii) other than matters described in the Prospectus and except as to any other matters relating to the television broadcast industry in general which would not have a material adverse effect on the Company and its subsidiaries, taken as a whole, such counsel after due inquiry does not know of (A) any proceedings threatened, pending or contemplated before the FCC against or involving the properties businesses or Licenses of the Company or its subsidiaries or (B) any communications laws or regulations of the United States applicable to such properties, businesses or Licenses, which in either case could have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(xxiii) to the best of such counsel's knowledge after due inquiry, no event has occurred which permits, or with notice or lapse of time or both would permit, the revocation or non-renewal of any of the FCC Licences, assuming the filing of timely license renewal applications and the timely payment of all applicable filing and regulatory fees to the FCC, or which might result in any other material impairment of the rights of the Company or its subsidiaries in the FCC Licenses.

(xxiv) the statement in the Prospectus under the caption "Risk Factors - Consummation of the Phipps Acquisition Prior to Final FCC Approval," "Risk Factors - FCC Divestiture Requirement," "Risk Factors - Regulatory Matters" and "Business - Federal Regulation of the Company's

Business" insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein and such counsel does not believe that such statements (A) at the time such amendment became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or (B) as of the date of this opinion, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

Such counsel shall also state that they have no reason to believe that the Registration Statement, or any further amendment thereto made prior to such Time of Delivery, on its effective date and as of such time of Delivery, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, or any amendment or supplement thereto made prior to such Time of Delivery, as of its issue date and as of such Time of Delivery, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (provided that such counsel need express no belief regarding the financial statements and related schedules and other financial data contained in the Registration Statement, any amendment thereto, or the Prospectus, or any amendment or supplement thereto).

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deem proper, on certificates of responsible officers of the Company and public officials and, as to matters involving the application of laws of any jurisdiction other than the state of New York or the United States, to the extent satisfactory in form and scope to counsel for the Underwriters, upon the opinion of [insert name of local counsel], provided that such counsel states such counsel believes that the Underwriters are justified in relying upon such opinion and copies of such opinion are delivered to the Representatives and counsel for the Underwriters.

(d) You shall have received an opinion, dated such Time of Delivery, of Heyman & Sizemore, Georgia counsel for the Company in form and substance satisfactory to you and your counsel, to the effect that:

(i) All of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable.

(ii) All of the issued shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued and are fully paid and nonassessable.

(iii) The Shares have been duly authorized and, when issued and delivered against payment therefor as provided herein, will be validly issued and fully paid and nonassessable; the certificates evidencing the Shares comply with all applicable requirements of Georgia law.

(iv) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and has the corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and to enter into this Agreement and perform its obligations hereunder.

(v) All offers and sales of the Company's capital stock prior to the date hereof were at all relevant times duly registered under the Act or exempt from the registration requirements of the Act by reason of Sections 3(b), 4(2) or 4(6) thereof and were duly registered or the subject of an available exemption from the registration requirements of the applicable state securities or blue sky laws.

(e) (i) You shall have received from Ernst & Young LLP letters dated, respectively, the date hereof (or, if the Registration Statement has been declared effective prior to the execution and delivery of this Agreement, dated such effective date and the date of this Agreement) and each Time of Delivery, in form and substance satisfactory to you, to the effect set forth in Annex I hereto. In the event that the letters referred to in this Section 7(e) set forth any changes, decreases or increases in the items specified in paragraph \_\_\_ of Annex I, it shall be a further condition to the obligations of the Underwriters that (i) such letters shall be accompanied by a written explanation by the Company as to the significance thereof, unless the Representatives deem such explanation unnecessary, and (ii) such changes, decreases or increases do not, in your sole judgment, make it impracticable or inadvisable to proceed with the purchase, sale and delivery of the Shares being delivered at such Time of Delivery as contemplated by the Registration Statement, as amended as of the date of such letter.

(ii) You shall have received from Deloitte & Touche LLP letters dated, respectively, the date hereof (or, if the Registration Statement has been declared effective prior to the execution and delivery of this Agreement, dated such effective date and the date of this Agreement) and each Time of Delivery, in form and substance satisfactory to you, to the effect set forth in Annex II hereto.

(f) Since the date of the latest audited financial statements included in the Prospectus, neither the Company nor any of its subsidiaries shall have sustained (i) any loss or interference with their respective businesses from fire, explosion, flood, hurricane or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as disclosed in or contemplated by the Prospectus, or (ii) any change, or any development involving a prospective change (including without limitation a change in management or control of the Company), in or affecting the position (financial or otherwise), results of operations, net worth or business prospects of the Company and its subsidiaries, otherwise than as disclosed in or contemplated by the Prospectus, the effect of which, in either such case, is in your judgment so material and adverse as to make it impracticable or inadvisable to proceed with the purchase, sale and delivery of the Shares being delivered at such Time of Delivery as contemplated by the Registration Statement, as amended as of the date hereof.

(g) Subsequent to the date hereof there shall not have occurred any of the following: (i) any suspension or limitation in trading in securities generally on the New York Stock Exchange, or any setting of minimum prices for trading on such exchange, or in the Common Stock by the Commission; (ii) a moratorium on commercial banking activities in New York declared by either federal or state authorities; (iii) any downgrading in the rating of any debt securities of the Company by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Act), or any public announcement that any such organization has under surveillance or review its rating of any debt securities of the Company (other than an announcement with positive implications of a possible upgrading, and no implication of a possible downgrading, of such rating); or (iv) any outbreak or escalation of hostilities involving the United States, declaration by the United States of a national emergency or war or any other national or international calamity or emergency if the effect of any such event specified in this clause (iv) in your judgment makes it impracticable or inadvisable to proceed with the purchase, sale and delivery of the Shares being delivered at such Time of Delivery as contemplated by the Registration Statement, as amended as of the date hereof.

(h) The Company shall have furnished to you at such Time of Delivery certificates of officers of the Company, satisfactory to you as to the accuracy of the representations and warranties of the Company herein at and as of such Time of Delivery, as to the performance by the Company of all of its obligations hereunder to be performed at or prior to such Time of Delivery, and as to such other matters as you may reasonably request, and the Company shall have furnished or caused to be furnished certificates as to the matters set forth in subsections (a) and (e) of this Section 7, and as to such other matters as you may reasonably request.

(i) The Shares shall be listed on the New York Stock Exchange, subject to notice of issuance.

8. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement made by the Company in Section 1 of this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact contained in (A) the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or (B) any application or other document, or any amendment or supplement thereto, executed by the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Shares under the securities or blue sky laws thereof or filed with the Commission or any securities association or securities exchange (each an "Application"); or (iii) the omission or alleged omission to state in the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or any Application a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement or any Rule 462(b) Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto or any Application in reliance upon and in conformity with written information furnished to the Company by any Underwriter through you expressly for use therein. The Company will not, without the prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding (or related cause of action or portion thereof) in respect of which indemnification may be sought hereunder (whether or not such Underwriter is a party to such claim, action, suit or proceeding), unless such settlement, compromise or consent includes an unconditional release of such Underwriter from all liability arising out of such claim, action, suit or proceeding (or related cause of action or portion thereof).

(b) Each Underwriter, severally but not jointly, agrees to indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto or any Application or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through you expressly for use therein; and will

reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action.

(c) Promptly after receipt by an indemnified party under subsection (a) and (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party); PROVIDED, HOWEVER, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be one or more legal defenses available to it or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party and such indemnified party shall have the right to select separate counsel to defend such action on behalf of such indemnified party. After such notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that in connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, which separate counsel shall be designated by the Representatives in the case of indemnity arising under paragraph (a) of this Section 8) or (ii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. Nothing in this Section 8(c) shall preclude an indemnified party from participating at its own expense in the defense of any such action so assumed by the indemnifying party.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party

failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section 8 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Act.

9. DEFAULT OF UNDERWRITERS. (a) If any Underwriter defaults in its obligation to purchase Shares at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six (36) hours after such default by any Underwriter you do not arrange for the purchase of such Shares, the Company shall be entitled to a further period of thirty-six (36) hours within which to procure another party or



other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company that you have so arranged for the purchase of such Shares, or the Company notifies you that it has so arranged for the purchase of such Shares, you or the Company shall have the right to postpone a Time of Delivery for a period of not more than seven days in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus that in your opinion may thereby be made necessary. The cost of preparing, printing and filing any such amendments shall be paid for by the Underwriters. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of Shares to be purchased at such Time of Delivery, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of Shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made, but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. TERMINATION. (a) This Agreement may be terminated with respect to the Firm Shares or any Optional Shares in the sole discretion of the Representatives by notice to the Company given prior to the First Time of Delivery or any Subsequent Time of Delivery, respectively, in the event that (i) any condition to the obligations of the Underwriters set forth in Section 7 hereof has not been satisfied, or (ii) the Company shall have failed, refused or been unable to deliver the Shares or to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder at or prior to such Time of Delivery, in either case other than by reason of a default by any of the Underwriters. If this Agreement is terminated pursuant to this Section 10(a), the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including counsel fees and disbursements) that shall have been incurred by them in connection with the proposed purchase and sale of the Shares. The Company shall not in any event be liable to any of the Underwriters for the loss of anticipated profits from the transactions covered by this Agreement.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company as provided in Section 9(a), the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of Shares to be purchased at such Time of Delivery, or if the Company shall not exercise the right described in Section 9(b) to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to a Subsequent Time of Delivery, the obligations of the Underwriters to purchase and of the Company to sell the Optional

Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

11. SURVIVAL. The respective indemnities, agreements, representations, warranties and other statements of the Company, its officers and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person referred to in Section 8(e) or the Company, or any officer or director or controlling person of the Company referred to in Section 8(e), and shall survive delivery of and payment for the Shares. The respective agreements, covenants, indemnities and other statements set forth in Sections 6 and 8 hereof shall remain in full force and effect, regardless of any termination or cancellation of this Agreement.

12. NOTICES. All communications hereunder shall be in writing and, if sent to any of the Underwriters, shall be mailed, delivered or telegraphed and confirmed in writing to you in care of The Robinson-Humphrey Company, Inc., 3333 Peachtree Road, N.E., Atlanta, Georgia 30326, Attention: Corporate Finance Department (with a copy to King & Spalding, 191 Peachtree Street, Atlanta, Georgia 30303, Attention: John J. Kelley III; and if sent to the Company, shall be mailed, delivered or telegraphed and confirmed in writing to the Company at 126 N. Washington Street, P.O. Box 48, Albany, Georgia 31702-0048, Attention: William A. Fielder III (with a copy to Proskauer Rose Goetz & Mendelsohn LLP, 1585 Broadway, New York, New York 10036, Attention: Henry O. Smith, III).

13. REPRESENTATIVES. You will act for the several Underwriters in connection with the transactions contemplated by this Agreement, and any action under this Agreement taken by you jointly or by The Robinson-Humphrey Company, Inc. will be binding upon all the Underwriters.

14. BINDING EFFECT. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters and the Company and to the extent provided in Sections 8 and 10 hereof, the officers and directors and controlling persons referred to therein and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

15. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia without giving effect to any provisions regarding conflicts of laws.

16. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us one of the counterparts hereof, and upon the acceptance hereof by The Robinson-Humphrey Company, Inc., on behalf of each of the Underwriters, this letter will constitute a binding agreement among the Underwriters and the Company. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in the Master Agreement among Underwriters, a copy of which shall be submitted to the Company for examination, upon request, but without warranty on your part as to the authority of the signers thereof.

Very truly yours,

GRAY COMMUNICATIONS SYSTEMS, INC.

By: \_\_\_\_\_

Name:

Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first written above at Atlanta, Georgia.

THE ROBINSON-HUMPHREY COMPANY, INC.  
ALLEN & COMPANY INCORPORATED  
J.C. BRADFORD & CO.  
J.P. MORGAN SECURITIES INC.

By: The Robinson-Humphrey Company,  
Inc.

By: \_\_\_\_\_  
(Authorized Representative)

On behalf of each of the Underwriters

SCHEDULE I

Underwriter -----	Total Number of Firm Shares to be Purchased -----	Number of Optional Shares to be Purchased if Maximum Option Exercised -----
The Robinson-Humphrey Company, Inc. Allen & Company Incorporated J.C. Bradford & Co. J.P. Morgan Securities Inc.		
Total.....	_____ _____ _____	_____ _____ _____

Pursuant to Section 7(e)(i) of the Underwriting Agreement, Ernst & Young LLP shall furnish letters to the Underwriters to the effect that:

(i) they are independent public accountants with respect to the Company and its consolidated subsidiaries within the meaning the Act and the applicable published rules and regulations thereunder;

(ii) in their opinion, the consolidated financial statements and schedules audited by them and included in the Prospectus and the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder;

(iii) the financial statements of the Company as of and for the three-month period ended March 31, 1996 were reviewed by them in accordance with the standards established by the American Institute of Certified Public Accountants and based upon their review they are not aware of any material modifications that should be made to such financial statements for them to be in conformity with generally accepted accounting principles, and such financial statements comply as to form in all material respects with the applicable accounting requirements of the Act and the applicable rules and regulations thereunder;

(iv) On the basis of limited procedures, not constituting an audit in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) the unaudited consolidated condensed financial statements of the Company and its consolidated subsidiaries included in the Registration Statement and the Prospectus do not comply in form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder or are not in conformity with generally accepted principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and the Prospectus;

(B) as of a specified date not more than 5 days prior to the date of such letter, there were any changes in the capital stock (other than the issuance of capital stock upon exercise of employee stock options that were outstanding on the date of the latest balance sheet included in the Prospectus) or any increase in inventories or the long-term debt or short-term debt of the Company and its subsidiaries, or any decreases in net current assets or net assets or other items specified by the Representatives, or any increases in any other items specified by the Representatives,

in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur, or which are described in such letter; and

(C) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause (B) there were any decreases in revenues or operating income or the total or per share amounts of net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for increases or decreases which the Prospectus discloses have occurred or may occur, or which are described in such letter; and

(v) In addition to the audit referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraph (iv) above, they have carried out certain specified procedures, not constituting an audit in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives that are included in the Registration Statement and the Prospectus, or which appear in Part II of, or in exhibits or schedules to, the Registration Statement and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement;

(vi) on the basis of a reading of the unaudited pro forma consolidated condensed financial statements included in the Registration Statement and the Prospectus, carrying out certain specified procedures that would not necessarily reveal matters of significance with respect to the comments set forth in this paragraph (vi), inquiries of certain officials of the Company and its consolidated subsidiaries and WRDW and the Phipps Business who have responsibility for financial and accounting matters and preparing the pro forma consolidated condensed financial statements, nothing came to their attention that caused them to believe that the unaudited pro forma consolidated condensed financial statements do not comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of such statements.

References to the Registration Statement and the Prospectus in this Annex I shall include any amendment or supplement thereto at the date of such letter.

ANNEX II

Pursuant to Section 7(e)(ii) of the Underwriting Agreement, Deloitte & Touche LLP shall furnish letters to the Underwriters to the effect that:

(i) they are independent public accountants with respect to WRDW-TV within the meaning the Act and the applicable published rules and regulations thereunder and

(ii) in their opinion, the consolidated financial statements and schedules audited by them and included in the Prospectus and the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder.

References to the Registration Statement and the Prospectus in this Annex II shall include any amendment or supplement thereto at the date of such letter.

## EXHIBIT 12

GRAY COMMUNICATIONS SYSTEMS, INC.  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
 (IN THOUSANDS EXCEPT RATIO DATA)

	YEAR ENDED DECEMBER 31,				THREE MONTHS ENDED		
	1991	1992	1993	1994	1995	MARCH 31, 1995	1996
Consolidated pretax income from continuing operations	\$ 3,006	\$ 1,265	\$ 2,748	\$ 4,542	\$ 1,565	\$ 658	\$ 584
Interest expense	787	1,486	985	1,923	5,438	1,376	2,157
Interest portion of rental expense	20	18	16	63	89	20	25
Amortization of debt discount	14	45	150	142	163	41	61
Earnings	\$ 3,827	\$ 2,814	\$ 3,899	\$ 6,670	\$ 7,255	\$ 2,095	\$ 2,827
Interest expense	\$ 787	\$ 1,486	\$ 985	\$ 1,923	\$ 5,438	\$ 1,376	\$ 2,157
Interest portion of rental expense	20	18	16	63	89	20	25
Amortization of debt discount	14	45	150	142	163	41	61
Capitalized interest	0	0	0	0	94	0	0
Fixed Charges	\$ 821	\$ 1,549	\$ 1,151	\$ 2,128	\$ 5,784	\$ 1,437	\$ 2,243
Ratio of Earnings to Fixed Charges	4.7	1.8	3.4	3.1	1.3	1.5	1.3

PRO FORMA COMBINED COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
 (IN THOUSANDS EXCEPT RATIO DATA)

	YEAR ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
Consolidated pretax income from continuing operations	\$ (5,803)	\$ (1,228)
Interest expense	21,252	5,272
Interest portion of rental expense	254	69
Amortization of debt discount	739	185
Earnings	\$ 16,442	\$ 4,298
Interest expense	\$ 21,252	\$ 5,272
Interest portion of rental expense	254	69
Amortization of debt discount	739	185
Capitalized interest	94	0
Fixed Charges	\$ 22,339	\$ 5,526
Ratio of Earnings to Fixed Charges (1)	--	--
(1) Fixed charges exceed earnings by	\$ 5,897	\$ 1,228



LIST OF SUBSIDIARIES OF  
GRAY COMMUNICATIONS SYSTEMS, INC.

Name -----	Jurisdiction ----- of Incorporation -----
The Albany Herald Publishing Company, Inc.	Georgia
The Rockdale Citizen Publishing Company	Georgia
WALB-TV, Inc.	Georgia
WJHG-TV, Inc.	Georgia
Gray Real Estate & Development Company	Georgia
WKXT Licensee Corp.	Delaware
WCTV Operating Corp.	Delaware
WKXT-TV, Inc.	Delaware
Gray Television Management, Inc.	Delaware
Gray Kentucky Television, Inc.	Georgia
The Southwest Georgia Shopper, Inc.	Georgia
WRDW-TV, Inc.	Georgia
KTVE, Inc.	Arkansas
Gray Transportation Company, Inc.	Georgia
WALB Licensee Corp.	Delaware
WJHG Licensee Corp.	Delaware
WKYT Licensee Corp.	Delaware
WRDW Licensee Corp.	Delaware
WYMT Licensee Corp.	Delaware

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated February 14, 1996, in Amendment No. 2 to the Registration Statement (Form S-1) and related Prospectus of Gray Communications Systems, Inc. dated July 9, 1996.

ERNST & YOUNG LLP

Columbus, Georgia  
July 9, 1996

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated January 26, 1996 with respect to the financial statements of WRDW-TV included in Amendment No. 2 to the Registration Statement (Form S-1) and related Prospectus of Gray Communications Systems, Inc. dated July 9, 1996.

ERNST & YOUNG LLP

Atlanta, Georgia  
July 9, 1996

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated February 19, 1996 with respect to the financial statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. included in Amendment No. 2 to the Registration Statement (Form S-1) and related Prospectus of Gray Communications Systems, Inc. dated July 9, 1996.

ERNST & YOUNG LLP

Atlanta, Georgia  
July 9, 1996

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 2 to Registration Statement No. 333-4340 of Gray Communications Systems, Inc. of our report dated May 12, 1995 on the balance sheet of WRDW-TV (an operating station of Television Station Partners, L.P.), as of December 31, 1994 and the related statements of income, partnership's equity and cash flows for the years ended December 31, 1993 and 1994, appearing in the Prospectus, which is a part of such Registration Statement, and to the reference to us under the heading "Experts" in such Prospectus.

DELOITTE & TOUCHE LLP  
New York, New York  
July 9, 1996