SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________.

COMMISSION FILE NUMBER 1-13796

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

GEORGIA (State or other jurisdiction of incorporation or organization)	52-0285030 (I.R.S. Employer Identification No.)
126 N. WASHINGTON ST. ALBANY, GA (Address of principal executive offices)	31701 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
CLASS A COMMON STOCK (NO PAR VALUE)	NEW YORK STOCK EXCHANGE
CLASS B COMMON STOCK (NO PAR VALUE)	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 23, 1998: CLASS A AND CLASS B COMMON STOCK; NO PAR VALUE - $139,915,154

The number of shares outstanding of the registrant's classes of common stock as of February 23, 1998: CLASS A COMMON STOCK; NO PAR VALUE - 4,534,195 SHARES; CLASS B COMMON STOCK, NO PAR VALUE - 3,402,755 SHARES

DOCUMENTS INCORPORATED BY REFERENCE: The registrant's definitive proxy statement for the annual meeting of shareholders to be filed with the Commission pursuant to Regulation 14A is incorporated by reference into part III herein.

PART 1

ITEM 1. BUSINESS

AS USED HEREIN, UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY" MEANS GRAY COMMUNICATIONS SYSTEMS, INC. AND ITS SUBSIDIARIES. THE COMPANY CONSUMMATED THE GULFLINK ACQUISITION AND THE WITN ACQUISITION (EACH AS HEREINAFTER DEFINED) ON APRIL 24, 1997 AND AUGUST 1, 1997, RESPECTIVELY. EXCEPT WITH RESPECT TO HISTORICAL FINANCIAL STATEMENTS AND UNLESS THE CONTEXT INDICATES OTHERWISE, THE GULFLINK ACQUISITION AND THE WITN ACQUISITION (AS HEREINAFTER DEFINED) ARE INCLUDED IN THE DESCRIPTION OF THE COMPANY. UNLESS OTHERWISE INDICATED, THE INFORMATION HEREIN HAS BEEN ADJUSTED TO GIVE EFFECT TO A 3-FOR2 SPLIT OF THE COMPANY'S CLASS A COMMON STOCK, NO PAR VALUE (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 HEREIN ARE DERIVED FROM THE NIELSEN STATION INDEX, VIEWERS IN PROFILE, DATED NOVEMBER 1997, AS PREPARED BY A.C. NIELSEN COMPANY ("NIELSEN").

GENERAL

The Company owns eight network-affiliated television stations in medium-size markets in the southeastern United States (the "Southeast"), 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 three are affiliated with the NBC Television Network, a division of the National Broadcasting Company, Incorporated ("NBC"). In connection with the First American Acquisition (as hereinafter defined) 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 "Divestiture Requirements." The Company also owns and operates three daily newspapers, two weekly, advertising only publications ("shoppers"), and a paging business, all located in the Southeast.

In 1993 after the acquisition of a large block of the Class A Common Stock by a new investor, the Company implemented a strategy to foster growth through strategic acquisitions. Since January 1, 1994, the Company's significant acquisitions have included six 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 August 1997 the Company acquired WITN-TV ("WITN"), a NBC-affiliate serving the Greenville-Washington-New Bern, North Carolina market which is ranked as the 106th largest designated market area ("DMA") in the United States (the "WITN Acquisition").

In April 1997 the Company acquired (the "GulfLink Acquisition") the stock of GulfLink Communications, Inc. ("GulfLink") of Baton Rouge, Louisiana. The GulfLink operations include nine transportable satellite uplink trucks.

In January 1996 the Company acquired (the "Augusta Acquisition") WRDW-TV ("WRDW"), a CBS-affiliate serving Augusta, Georgia (the "Augusta Business"). In September 1996, the Company purchased from First American Media, Inc. (the "First American Acquisition") substantially all of the assets of two CBS-affiliated stations, WCTV-TV ("WCTV") serving Tallahassee, Florida-Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, a satellite uplink business and a paging business (collectively, the "First American Business"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT').

In August 1996 the Company sold the assets of KTVE Inc. ("KTVE") serving Monroe, Louisiana-El Dorado, Arkansas (the "KTVE Sale") for approximately $9.5 million in cash plus the amount of accounts receivable on the date of the closing (approximately $829,000).

For the year ended December 31, 1997, on a pro forma basis giving effect to the WITN Acquisition and the GulfLink Acquisition as if they had occurred on January 1, 1997, 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 a net loss of $109.1 million, $40.2 million, $37.7 million and $(2.4) million, respectively. On a pro forma basis giving effect to the WITN Acquisitions, the GulfLink Acquisition, the First American Acquisition and the KTVE Sale, as if they had occurred on January 1, 1996, net revenues and net loss for the year ended December 31, 1997, increased 0.2% and 136.6%, respectively, while Media Cash Flow and operating cash flow decreased 2.9% and 1.3%, from the pro forma amounts for the year ended December 31, 1996.

PENDING ACQUISITION

In February 1998 the Company announced that it had signed a definitive purchase agreement to acquire all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price is approximately $112.0 million plus Busse's cash and cash equivalents less Busse's indebtedness including its 11 5/8% Senior Secured Notes due 2000. Busse owns and operates three VHF television stations: KOLN-TV, the CBS-affiliate operating on Channel 10 in the Lincoln-Hastings-Kearney, Nebraska television market, and its satellite station KGIN-TV, the CBS-affiliate operating on Channel 11 serving Grand Island, Nebraska; and WEAU-TV, the NBC-affiliate operating on Channel 13 serving the Eau Claire-La Crosse, Wisconsin market. The purchase of Busse is subject to FCC approval, and the acquisition is expected to close on or before September 1, 1998.

WITN ACQUISITION

On August 1, 1997, the Company completed the WITN Acquisition. The purchase price for the WITN Acquisition was approximately $41.7 million, including fees, expenses, and working capital and other adjustments. The Company funded the costs of this acquisition through borrowings under its senior credit facility (the "Senior Credit Facility").

THE FIRST AMERICAN ACQUISITION, THE KTVE SALE AND THE FINANCING

On September 30, 1996, the Company completed the First American Acquisition and acquired WCTV and WVLT, a satellite broadcasting business and a paging business in the Southeast. The purchase price for the First American Acquisition was approximately $183.9 million, including fees, expenses, and working capital and other adjustments.

The Company completed the KTVE Sale, on August 20, 1996. The sales price included $9.5 million in cash plus the amount of accounts receivable on the date of closing to the extent collected by the buyer (approximately $829,000). The Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million.

DIVESTITURE REQUIREMENTS

In connection with the First American Acquisition, the FCC ordered the Company to divest itself of WALB-TV ("WALB") in Albany, Georgia and WJHG-TV ("WJHG") in Panama City, Florida by March

31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July 1997 received an extension of the divestiture deadline with regard to WJHG, conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC will complete its rulemaking on this subject. Also in July 1997, the Company obtained FCC approval to transfer control of WALB to a trust with a view towards the trustee effecting (i) a swap of WALB's assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986, or (ii) a sale of such assets. Under the trust arrangement, the Company relinquished operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the trustee is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability. The FCC allowed up to six months for the trustee to file an application seeking the agency's approval of a swap or sale. This six month period expired in January 1998 without a swap or sale being executed. The trustee has filed an application requesting a six month extension to effect a swap or sale. The FCC has not yet ruled on this extension application.

TELEVISION BROADCASTING

THE COMPANY'S STATIONS AND THEIR MARKETS

AS USED IN THE TABLES FOR EACH OF THE COMPANY'S STATIONS AND IN THIS SECTION (I) "TOTAL MARKET REVENUES" REPRESENT GROSS ADVERTISING REVENUES, EXCLUDING BARTER REVENUES, FOR ALL COMMERCIAL TELEVISION STATIONS IN THE MARKET, AS REPORTED IN INVESTING IN TELEVISION 1997 MARKET REPORT, FOURTH EDITION NOVEMBER 1997 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; (II) "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;(III) "STATION RANK IN DMA" IS BASED ON NIELSEN ESTIMATES FOR NOVEMBER 1997 FOR THE PERIOD FROM 6 A.M. TO 2 A.M. SUNDAY THROUGH SATURDAY; AND (IV) AVERAGE HOUSEHOLD INCOME, EFFECTIVE BUYING INCOME AND RETAIL BUSINESS SALES GROWTH PROJECTIONS ARE AS REPORTED IN INVESTING IN TELEVISION 1997 MARKET REPORT, FOURTH EDITION NOVEMBER 1997 RATINGS AS PUBLISHED BY BIA PUBLICATIONS, INC. (THE "BIA GUIDE").

Station	Market	DMA Rank (1)	Commercial Stations in DMA(2)	Station Rank in DMA	Television Households(3)	Total Market Revenues in DMA for 1997	In-Market Share of Households Viewing TV
						(IN THOUSANDS)	
WVLT	Knoxville, TN	64	5	2	441,000	$62,100	24%
WKYT	Lexington, KY	67	6	1	403,000	53,300	36
WYMT(4)	Hazard, KY	67	N/A	1	175,000	4,800	28
WITN	Greenville-Washington-New Bern, NC	106	4	2	234,000	27,700	29
WRDW	Augusta, GA	109	4	1	226,000	30,500	38
WCTV	Tallahassee,FL-Thomasville, GA	112	4	1	221,000	22,000	56
WALB (5)	Albany, GA	148	4	1	138,000	13,800	77
WJHG(5)	Panama City, FL	157	4	1	117,000	10,900	53

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(1) Ranking of DMA served by a station among all DMAs is measured by the number of television households based within the DMA in the November 1997 Nielsen estimates.

(2) Includes independent broadcasting stations.

(3) Based upon the approximate number of television households in the DMA as reported by the November 1997 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 ratings position in the 18-county trading area.

(5) The Company is required to divest WALB and WJHG under current FCC regulations. For a discussion of the Company's plan, see "Divestiture Requirements."

The percentage of the Company's total revenues contributed by the Company's television broadcasting segment was approximately 69.8%, 69.3% and 62.7% for each of the years ended December 31, 1997, 1996 and 1995, respectively.

In the following description of each of the Company's stations, all information set forth below concerning Total Market Revenues, average household income, projected effective buying income and projected retail business sales growth has been derived from the BIA Guide.

WVLT, THE CBS-AFFILIATE IN KNOXVILLE, TENNESSEE

WVLT, acquired by the Company in September 1996, began operations in 1988. Knoxville, Tennessee is the 64th DMA in the United States, with approximately 441,000 television households and a total population of approximately 1.1 million. Total Market Revenues in the Knoxville DMA in 1997 were approximately $62.1 million, a 2% increase over 1996. According to the BIA Guide, the average household income in the Knoxville DMA in 1995 was $33,774, with effective buying income projected to grow at an annual rate of 5.6% through 2000. Retail business sales growth in the Knoxville DMA is projected by the BIA Guide to average 5.9% annually during the same period. The Knoxville DMA has five licensed commercial television stations, four of which are affiliated with major networks. The Knoxville DMA also has two public broadcasting stations.

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. Leading manufacturing employers in the area include: Lockheed Martin Energy Systems, Inc., DeRoyal Industries, Aluminum Company of North America, Phillips Consumer Electronics North America Corp., Clayton Homes and Sea Ray Boats, Inc. Area tourist attractions are the Great Smokey Mountains National Park and Dollywood, a country-western theme park sponsored by Dolly Parton.

WKYT, THE CBS-AFFILIATE IN LEXINGTON, KENTUCKY

WKYT, acquired by the Company in September 1994, began operations in 1957. Lexington, Kentucky is the 67th largest DMA in the United States, with approximately 403,000 television households and a total population of approximately 1.1 million. Total Market Revenues in the Lexington DMA in 1997 were approximately $53.3 million, a 3% increase over 1996. According to the BIA Guide, the average household income in the Lexington DMA in 1995 was $32,836, with effective buying income projected to grow at an annual rate of 5.8% through 2000. Retail business sales growth in the Lexington DMA is projected by the BIA Guide to average 5.8% annually during the same period. The Lexington DMA has six licensed commercial television stations, including WYMT, WKYT's sister station, five of which are affiliated with major networks. The Lexington DMA also has one public television station.

MARKET DESCRIPTION. The Lexington DMA consists of 40 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., the University of Kentucky and International Business Machines Corporation. Eight hospitals and numerous medical clinics are located in Lexington, reinforcing Lexington's position as a regional medical center. The University of Kentucky's main campus is also located in Lexington. In

addition, Lexington is an international center of the equine industry with the Kentucky Horse Park, a 1,000 acre park that attracts approximately 730,000 visitors annually.

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 marketing area of the Lexington, Kentucky DMA with approximately 175,000 television households and a total population of approximately 460,000. WYMT is the only commercial television station in this 18-county trading area. Total Market Revenues in the 18-county trading area for the year ended December 31, 1997, were approximately $4.8 million. WYMT is the sister station of WKYT and shares many resources and simulcasts some local programming with WKYT.

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 93 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 12,000 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.

WITN, THE NBC-AFFILIATE IN GREENVILLE-WASHINGTON-NEW BERN, NORTH CAROLINA

WITN, acquired by the Company in August 1997, began operations in 1955. Greenville-Washington-New Bern, North Carolina is the 106th largest DMA in the United States, with approximately 234,000 television households and a total population of approximately 673,000. Total Market Revenues in the Greenville-Washington-New Bern DMA in 1997 were approximately $27.7 million, a 4% increase over 1996. According to the BIA Guide, the average household income in the Greenville-Washington-New Bern DMA in 1995 was $35,260, with effective buying income projected to grow at an annual rate of 5.9% through 2000. Retail business sales growth in the Greenville-Washington-New Bern DMA is projected by the BIA Guide to average 5.9% annually during the same period. The Greenville-Washington-New Bern DMA has four licensed commercial television stations, all of which are affiliated with major networks. The Greenville-Washington-New Bern DMA also has two public television stations.

MARKET DESCRIPTION. The Greenville-Washington-New Bern DMA consists of 15 counties in eastern North Carolina. Greenville, North Carolina (located 100 miles east of Raleigh) is the primary economic center of the region and home to East Carolina University. The Greenville-Washington-New Bern economy centers around education, manufacturing, and agriculture. Leading employers in the area include: East Carolina University, Catalytica Pharmaceuticals, Inc., PCS Phosphate, Rubber Maid Cleaning Products, Inc., and Weyerhauser Co.

WRDW, THE CBS-AFFILIATE IN AUGUSTA, GEORGIA

WRDW, acquired by the Company in January 1996, began operations in 1954. Augusta, Georgia is the 109th largest DMA in the United States, with approximately 226,000 television households and a total

population of approximately 637,000. Total Market Revenues in the Augusta DMA in 1997 were approximately $30.5 million, a 2% increase over 1996. According to the BIA Guide, the average household income in the Augusta DMA in 1995 was $32,830, with effective buying income projected to grow at an annual rate of 3.5% through 2000. Retail business sales growth in the Augusta DMA is projected by the BIA Guide to average 3.5% annually during the same period. 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.

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 military and 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 approximately 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 42 years.

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

WCTV, acquired by the Company in September 1996, began operations in 1955. Tallahassee Florida-Thomasville, Georgia is the 112th largest DMA in the United States, with approximately 221,000 television households and a total population of approximately 619,000. Total Market Revenues in the Tallahassee-Thomasville DMA in 1997 were approximately $22.0 million, a 3% increase over 1996. According to the BIA Guide, the average household income in the Tallahassee, Florida-Thomasville, Georgia DMA in 1995 was $33,687, with effective buying income projected to grow at an annual rate of 5.2% through 2000. Retail business sales growth in the Tallahassee, Florida-Thomasville, Georgia DMA is projected by the BIA Guide to average 5.4% annually during the same period. 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 television station.

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 University, Tallahassee Community College, Thomas College and Valdosta State University. Florida State University is the largest university located in the DMA and its main campus is located within the city of Tallahassee.

WALB, THE NBC-AFFILIATE IN ALBANY, GEORGIA

WALB was founded by the Company and began operations in 1954. Albany, Georgia is the 148th largest DMA in the United States with approximately 138,000 television households and a total population of approximately 395,000. Total Market Revenues in the Albany DMA in 1997 were approximately $13.8 million, a 2% increase over 1996. According to the BIA Guide, the average household income in the Albany DMA in 1995 was $28,830, with effective buying income projected to grow at an annual rate of 4.5% through 2000. Retail business sales growth in the Albany DMA is projected by the BIA Guide to average 4.5% annually during the same period. The Albany DMA has four licensed commercial television stations, three of which are affiliated with networks. The Albany DMA also has one public television station.

MARKET DESCRIPTION. The Albany DMA, consists of 18 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 and Darton College are also located within this area.

WJHG, THE NBC-AFFILIATE IN PANAMA CITY, FLORIDA

WJHG, acquired by the Company in 1960, began operations in 1953. Panama City, Florida is the 157th largest DMA in the United States, with approximately 117,000 television households and a total population of approximately 318,000. Total Market Revenues in the Panama City DMA in 1997 were approximately $10.9 million, a 3% increase over 1996. According to the BIA Guide, the average household income in the Panama City DMA in 1995 was $33,357, with effective buying income projected to grow at an annual rate of 5.9% through 2000. Retail business sales growth in the Panama City DMA is projected by the BIA Guide to average 5.7% annually during the same period. 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.

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 and Gulf Coast Community College.

SATELLITE TRANSMISSION AND PRODUCTION SERVICES

The Company's satellite transmission and production services business, Lynqx Communications, operates C-band and Ku-band transportable satellite uplink units and provides production management services. Clients include The Golf Channel, USA Network, Turner Cable Network Services, NBC, CBS, ABC, Home Box Office, MTV, The Children's Miracle Network and many other broadcast and cable services. In April 1997 the Company acquired GulfLink of Baton Rouge, Louisiana.

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.

Four major broadcast networks, ABC, Inc. ("ABC"), NBC, CBS, and Fox dominate broadcast television. Additionally, United Paramount Network ("UPN") and Warner Brothers Network ("WB") 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 the four major networks.

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. Most successful commercial television stations obtain their brand identity from locally produced news programs.

In contrast to a station affiliated with a network, a fully independent station purchases or produces all of the programming that it broadcasts, resulting in generally higher programming costs. An independent station, however, retains its entire inventory of advertising time and all the revenues obtained therefrom. 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.

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 has increased 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.

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 unless the station notifies NBC otherwise. The NBC affiliation agreement with WITN expires on June 30, 2006. The CBS affiliation agreements for WKYT, WYMT, WRDW, WCTV and WVLT expire on December 31, 2004, December 31, 2004, March 31, 2005, December 31, 1999, and December 31, 2004, respectively.

NEWSPAPER PUBLISHING

The Company owns and operates five publications comprising three newspapers and two shoppers, all located in the Southeast. The percentage of total company revenues contributed by the newspaper publishing segment was approximately 23.7%, 28.8% and 37.3% for each of the years ended December 31, 1997, 1996 and 1995, respectively.

THE ALBANY HERALD

The Albany Herald Publishing Company, Inc. ("The Albany Herald"), located in Albany, Georgia, publishes THE ALBANY HERALD, which is the only seven-day-a-week newspaper that serves southwest Georgia. The Company converted THE ALBANY HERALD from an afternoon newspaper to a morning newspaper in 1993 and over the last five years has improved THE ALBANY HERALD'S graphics and layout, expanded local news coverage and expanded delivery zones on peak advertising days. These changes have allowed the Company to increase THE ALBANY HERALD'S newsstand and subscription prices as well as its advertising rates. The Company intends to increase selectively the price and advertising rates of THE ALBANY HERALD in the future.

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 FARM AND PLANTATION, an agricultural paper; a monthly coupon clipper and 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 20 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.

THE ROCKDALE CITIZEN and the GWINNETT DAILY POST

THE ROCKDALE CITIZEN and the GWINNETT DAILY POST are six-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 Publishing Company 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 approximately 65,000.

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. Since the purchase of the Gwinnett Daily Post, the frequency of publication has increased from three to six days per week in an effort to establish a daily newspaper and increase market share.

In 1997, the Gwinnett Daily Post entered into an agreement with CableVision Communications, Inc. ("Cable Vision"), a local cable provider, that resulted in a subscription to the GWINNETT DAILY POST being included in the basic cable package purchased by cable subscribers. As a result, the GWINNETT DAILY POST'S paid circulation tripled to 49,000 in 1997, and the Company started a local Gwinnett TV news channel, Gwinnett News and Entertainment Television ("GNET"), which is produced by the Company and broadcast on the local cable system.

On October 30, 1997, the Gwinnett Daily Post entered into a similar agreement with Genesis Cable Communications LLC ("Genesis"). Upon the completion of this alliance on March 1, 1998, paid circulation for the GWINNETT DAILY POST will be approximately 64,000.

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 their promotional efforts. Additionally, the Gwinnett Daily Post is increasing its circulation through the cable alliances with Cable Vision and Genesis. The Gwinnett Daily Post intends to build upon this additional circulation in order to increase advertising revenues. In 1997, the Company made a capital investment of approximately $3.9 million to upgrade and expand the newspaper and GNET production facilities including the installation of a new press at The Rockdale Citizen.

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 an important 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 larger 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, acquired by the Company in September 1996 is based in Tallahassee, Florida and operates in Columbus, Macon, Albany, and Valdosta, Georgia, in Dothan, Alabama, in Tallahassee, Gainesville, Orlando and Panama City, Florida and in certain contiguous areas. The population of the paging business geographic coverage area is approximately 5.9 million. In 1997, the Company's paging and specialized mobile radio ("SMR") business had approximately 67,000 units in service, representing a penetration rate of approximately 2.5%. The percentage of total Company revenues contributed by the

paging segment was approximately 6.5% and 1.9% for each of the years ended December 31, 1997, and 1996, respectively.

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 75% are customer owned and maintained ("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 the majority of its pagers from two suppliers, INTEK 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 the Company's 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; and (iii) sales agents who solicit customers and are compensated on a salary and commission basis.

ADDITIONAL INFORMATION ON BUSINESS SEGMENTS

Reference is made to Note K of Notes to Consolidated Financial Statements of the Company 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.

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. Historically, cable operators have not sought to compete with broadcast stations for a share of the local news audience. Recently, however, certain cable operators do 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, "wireless cable" services, satellite master antenna television systems, low power television stations, television translator stations and direct broadcast satellite ("DBS") video distribution services.

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 SEINFELD) and first-run product (such as ENTERTAINMENT TONIGHT). Cable systems generally do not compete

with local stations for programming, although various national cable networks 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 station's overall ratings, 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. The stations also compete for advertising revenue 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. One of the Company's newspaper competitors is significantly larger than the Company and operates in two of its newspaper markets. The Company differentiates its publications from the other newspaper by focusing on local news and local sports coverage in order to compete with its larger competitor. 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. However, future technological developments in the wireless communications industry and enhancements of current technology 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.

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 of 1934, as amended (the "Communications Act") and the Telecommunications Act of 1996 (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 eight years 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, WITN, WKYT, WYMT, WRDW, WCTV and WVLT are effective until April 1, 2005, February 1, 2005, December 1, 2004, August 1, 2005, August 1, 2005, April 1, 2005, April 1, 2005 and August 1, 2005, 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 substantially all 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 co-owned television stations whose aggregate audience reach exceeds 35% of all United States households.

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 pending 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 for stations in adjacent markets and possibly permitting some two-station combinations within 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 1998 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 also directs the FCC to extend its one-to-a-market (TV-Radio) 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 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 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, uninsulated 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 Notice of Proposed Rule Making ("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. At this time, the Company is unable to predict when this inquiry will be completed 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. 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 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 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 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.

RECENT DEVELOPMENTS. 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, reinstitution 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 are required to make an election of "must carry" or retransmission consent at three year intervals. Stations that fail to elect are deemed to have elected carriage under the "must carry" provisions. Other issues addressed in the FCC rules are market designations, the scope of retransmission consent and procedural requirements for implementing the signal carriage provisions. Each of the Company's stations has elected "must carry" status on certain cable systems in its DMA; on others the Company's stations have entered into retransmission consent agreements. This election entitled the Company's stations to carriage on those systems until at least December 31, 1999.

ADVANCE 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. In February 1998, the FCC acted on numerous petitions for

reconsideration and issued a new table of allotments that expands the channels (2-51) available for permanent digital broadcasting operations.

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 or the impact of possible legislation on the growth of DBS service.

PAGING

FEDERAL REGULATION. The Company's paging operations, including its SMR operations, acquired by the Company in September 1996, 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 and SMR 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 holds various FCC radio licenses which are used in connection with its paging and SMR operations. The license expiration dates for these licenses are staggered, with only a portion of the licenses expiring in any particular calendar year. The largest group of licenses will expire during calendar year 1999. Licensees in the paging and SMR services normally enjoy a license renewal expectancy and the vast majority of license renewal applications are granted in the normal course. 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 operations of licensed facilities or to revoke or modify licenses. None of the Company's licenses have ever been revoked or modified involuntarily, and such proceedings by the FCC are rarely undertaken.

The FCC has enacted regulations regarding auctions for the award of radio licenses. Pursuant to such rules, the FCC may, at any time, require auctions for new or existing services prior to the award of any license, and has done so in the 800 and 900 MHz SMR service band widths. Accordingly, there can be no assurance that the Company will be able to procure additional frequencies, or expand existing paging and SMR networks into new service areas.

In March 1994, the FCC adopted rules pursuant to which the FCC auctions licenses for blocks of spectrum on a "market area basis." The winner of the license is given the right to use a certain frequency or group of frequencies throughout a defined geographic area and can construct and operate its transmitters throughout this market area without FCC licensing of individual stations. Existing users of the designated frequencies will be protected from interference. The FCC has completed auctions to license various radio services on a market area basis including the first phase of the 800 MHz trunked SMR auction, which concluded in December 1997. In these auctions, successful bidders have made significant auction payments in order to obtain spectrum. In the SMR auction which just closed, the Company was the high bidder for the Tallahassee and Panama City, Florida; Albany, Valdosta and Tifton, Georgia; and Columbus, Georgia and Auburn, Alabama markets. The Company filed its long-form auction application on December 23, 1997, and is not aware of any protests. The time period for filing protests against the pending application has expired.

Once the Company's application for its licenses is granted, the Company will be required to meet certain coverage bench marks in order to retain its licenses. The Company believes that it will be able to build out the markets won at the auction to meet these bench marks.

With respect to its paging operations, the Company may chose to participate in the market area licensing auctions for the paging services. The first such auction, for the 900 MHz paging band is tentatively scheduled for the third quarter of calendar year 1998. The lower paging bands, e.g., the exclusive 150 Mhz frequencies on which the Company is licensed, are likely to be the subject of market area licensing auctions in calendar year 1999. There is no assurance that the Company will be able to successfully bid on its existing frequencies; however, users of the designated frequencies will be protected from interference.

EMPLOYEES

As of February 23, 1998, the Company had 1,020 full-time employees, of which 671 were employees of the Company's stations, 290 were employees of the Company's publications, 49 were employees of the Company's paging operations 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.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT

This annual report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "believes," "expects," "anticipates," "estimates" and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe the Company's future strategic plans, goals, or objectives are also forward-looking statements. Readers of this report are cautioned that any forward-looking statements, including those regarding the intent, belief or current expectations of the Company or management, are not guarantees of future performance, results or events and involve risks and uncertainties, and that actual results and events may differ materially from those in the forward-looking statements as a result of various factors including, but not limited to, (i) general economic conditions in

the markets in which the Company operates, (ii) competitive pressures in the markets in which the Company operates, (iii) the effect of future legislation or regulatory changes on the Company's operations and (iv) other factors described from time to time in the Company's filings with the Securities and Exchange Commission. The forward-looking statements included in this report are made only as of the date hereof. The Company undertakes no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

ITEM 2. PROPERTIES

The Company's principal executive offices are located at 126 North Washington Street, Albany, Georgia.

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 on 2 acres	--
Hazard, KY	Transmission tower site	Leased	--	June 2005
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.	--
	Transmission tower site	Owned	23 acres	--
WJHG				
Panama City, FL	Office and studio	Owned	14,000 sq. ft.	--
Youngstown, FL	Transmission tower site	Owned	17 acres	--

TELEVISION BROADCASTING (CONTINUED)

Station/Approximate Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
WVLT				
Knoxville, TN	Office and studio	Owned	18,000 sq. ft.	--
	Transmission tower site	Leased	Tower space	Dec. 1998
WCTV				
Tallahassee, FL	Office and studio	Leased	21,000 sq. ft. of buildings on 37 acres	Dec. 2014
Metcalf, GA	Transmission tower site	Leased	182 acres	Nov. 1999
WITN				
Washington, NC	Office and studio	Owned	19,600 sq. ft.	--
Grifton, NC	Transmitter building	Owned	4,190 sq. ft.	--
Grifton, NC	Transmission tower site	Leased	9 acres	Jan. 1999
Lynqx Communications				
Baton Rouge, LA	Office and repair site	Leased	6,800 sq. ft.	Dec. 1999
Tallahassee, FL	Office	Owned	1,000 sq. ft.	--

PUBLISHING

Company/Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
The Albany Herald Publishing Company, Inc.				
Albany, GA	Offices, printing press and production facility for The Albany Herald Publishing Company, Inc.	Owned	83,000 sq. ft.	--
The Rockdale Citizen Publishing Company				
Conyers, GA	Offices for THE ROCKDALE CITIZEN	Owned	20,000 sq. ft.	--
Conyers, GA	Offices, printing press and production facility for THE ROCKDALE CITIZEN and the GWINNETT DAILY POST	Leased	20,000 sq. ft.	May 2002
Lawrenceville, GA	Offices and production facilities of the GWINNETT DAILY POST	Leased	11,000 sq. ft.	Nov 1999
The Southwest Georgia Shoppers, Inc. Tallahassee, FL	Offices	Owned	5,500 sq. ft.	--

PAGING

Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
Albany, GA	Sales Office	Leased	800 sq. ft.	May 2000
Columbus, GA	Sales Office	Leased	1,000 sq. ft.	July 1998
Dothan, AL	Sales Office	Leased	800 sq. ft.	Feb. 2000
Macon, GA	Sales Office	Leased	1,260 sq. ft.	July 1998
Tallahassee, FL	Sales Office	Leased	1,800 sq. ft.	Sept. 2000
Tallahassee, FL	General and Administrative Office	Leased	2,400 sq. ft.	March 2002
Thomasville, GA	Sales Office	Leased	300 sq. ft.	May 2000
Valdosta, GA	Sales Office	Leased	400 sq. ft.	Sept. 2000
Panama City, FL	Sales Office	Leased	1,050 sq. ft.	Jan. 2000
Gainsville, FL	Sales Office	Leased	800 sq. ft.	Oct. 2000
Central, FL (1)	Various Sales Offices (1)	Leased	(1)	(1)

(1) The paging operations have five sales office locations in the Central Florida region. These offices are leased and average approximately 600 sq. ft. Three of the leases are month to month with the remaining two leases expiring in April and October 1999.

The paging operations also lease space on various towers in Florida, Georgia and Alabama. These tower leases have expiration dates ranging from 1998 to 2002.

ITEM 3. 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the fiscal year covered.

EXECUTIVE OFFICERS

Set forth below is certain information with respect to the executive officers of the Company:

J. Mack Robinson, age 74, has been President and Chief Executive Officer, of the Company since September 1996. Mr. Robinson has been Chairman of the Board of Bull Run Corporation 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 1974.

Robert S. Prather, age 53, has been Executive Vice President-Acquisitions of the Company since September 1996. He has been President and Chief Executive Officer of Bull Run Corporation since July 1992.

Robert A. Beizer, age 58, 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 is a past president of the Federal Communications Bar Association and a member of the ABA House of Delegates.

Joseph A. Carriere, age 65, has been Vice President-Television of the Company since September 1996. Prior to that appointment, he served as Vice President-Corporate Sales from February 1996. He has been President and General Manager of WVLT-TV, Inc., a subsidiary of the Company, since September 1996. From November 1994 until his appointment as Vice President-Corporate Sales, 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 Affiliates Advisory Board and as a member of the Television Board of Directors of the National Association of Broadcasters.

William A. Fielder, III, age 39, had been Vice President and Chief Financial Officer of the Company since August 1993. Prior to this position, he served as Controller of the Company from April 1991 to August 1993. Effective March 9, 1998, Mr. Fielder resigned to accept a position with a software company.

Thomas J. Stultz, age 46, has been Vice President of the Company and President of the Company's publishing division since February 1996. Prior to joining the Company, he was employed by Multimedia Newspaper Company, where he served as Vice President from 1988 to 1995.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since June 30, 1995, the Company's Class A Common Stock has been listed and traded on The New York Stock Exchange (the "NYSE") under the symbol "GCS." Since September 24, 1996, the date of its initial issuance, the Company's Class B Common Stock, no par value, (the "Class B Common Stock") has also been listed and traded on the NYSE under the symbol "GCS.B". The following table sets forth the high and low sale prices of the Class A and Class B Common Stock as well as the cash dividend declared for the periods indicated. The high and low sales prices of the Class B Common Stock are as reported by the NYSE since the date of its initial issuance.

	CLASS A COMMON STOCK			CLASS B COMMON STOCK		
	HIGH	LOW	CASH DIVIDENDS DECLARED PER SHARE	HIGH	LOW	CASH DIVIDENDS DECLARED PER SHARE
FISCAL 1996						
First Quarter	$20.38	$15.75	$0.02	---	---	---
Second Quarter	23.25	18.75	0.02	---	---	---
Third Quarter	23.13	20.25	0.02	$20.50	$18.00	---
Fourth Quarter	21.25	17.50	0.02	19.50	14.88	$0.02
FISCAL 1997						
First Quarter	$20.75	$17.63	$0.02	$19.50	$16.38	$0.02
Second Quarter	22.43	16.75	0.02	20.88	15.38	0.02
Third Quarter	25.63	20.31	0.02	25.50	18.88	0.02
Fourth Quarter	27.88	25.00	0.02	26.13	24.06	0.02

As of February 23, 1998, the Company had 4,534,195 outstanding shares of Class A Common Stock held by 1,209 shareholders and 3,402,755 outstanding shares of Class B Common Stock held by 825 shareholders. The number of shareholders includes shareholders of record and individual participants in security position listings as furnished to the Company pursuant to Rule 17Ad-8 under the Exchange Act.

The Company has paid a dividend on its Class A Common Stock since 1967. In 1996 the Company amended its Articles of Incorporation to provide that each share of Class A Common Stock is entitled to 10 votes and each share of Class B Common Stock is entitled to one vote. The Articles of Incorporation, as amended, require that the Class A Common Stock and the Class B Common Stock receive dividends on a PARI PASSU basis. There can be no assurance of the Company's ability to continue to pay any dividends on either class of Common Stock.

The Senior Credit Facility and the Company's Senior Subordinated Notes due 2006 (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 convenants currently limit its ability to pay dividends at the recent quarterly rate of $0.02 per share. 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.

ITEM 6. SELECTED FINANCIAL DATA

Set forth below are certain selected historical consolidated financial data of the Company. This information should be read in conjunction with the Audited 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 five-year period ended December 31, 1997, are derived from the Audited Consolidated Financial Statements of the Company and its subsidiaries. Also see pro forma data for the WITN Acquisition, the GulfLink Acquisition, the First American Acquisition and the Augusta Acquisition in Note C and the KTVE Sale in Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein.

	YEAR ENDED DECEMBER 31,				
	1997(1)	1996 (2)	1995 (3)	1994 (3)	1993
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
STATEMENTS OF INCOME DATA					
Revenues	$ 103,548	$ 79,305	$58,616	$36,518	$25,113
Operating Income	20,730	16,079	6,860	6,276	3,531
Income (loss) from continuing operations	(1,402)	5,678	931	2,766	1,680
Income (loss) from continuing operations available to common stockholders	(2,812)	5,302	931	2,766	1,680
Income (loss) from continuing operations available to common stockholders per common share (4):					
Basic	(0.36)	0.98	0.21	0.59	0.36
Diluted	(0.36)	0.94	0.21	0.59	0.36
Cash dividends per common share (4)	$ 0.08	$ 0.08	$ 0.08	$ 0.07	$ 0.07
BALANCE SHEET DATA (AT END OF PERIOD):					
Total Assets	$ 345,051	$298,664	$78,240	$68,789	$21,372
Long-term Debt	$ 227,076	$173,368	$54,324	$52,940	$ 7,759

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(1) The financial data reflects the operating results of the WITN Acquisition and the GulfLink Acquisition, which were completed in 1997, as of their respective acquisition dates. See Note C to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(2) The financial data reflects the operating results of the Augusta Acquisition and the First American Acquisition, as well as the KTVE Sale, all of which were completed in 1996, as of their respective acquisition, or disposition, dates. The Company also incurred an extraordinary charge in connection with the early extinguishment of debt. See Notes B, C and D to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(3) The financial data reflects the operating results of various acquisitions completed in 1994 and 1995 as of their respective acquisition dates. See Note C of the Company's Audited Consolidated Financial Statements included elsewhere herein.

(4) On August 17, 1995, the Company's Board of Directors authorized a 50% stock dividend on the Company's Class A 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.

THESE SUMMARIES SHOULD BE READ IN CONJUNCTION WITH THE RELATED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED UNDER ITEM 8.

ITEM 7. 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 Gray Communications Systems, Inc. (the "Company") should be read in conjunction with the Company's Audited Consolidated Financial Statements and notes thereto included elsewhere herein.

The Company derives its revenues from its television broadcasting, publishing and paging operations. On February 13, 1998, the Company signed a definitive purchase agreement to acquire all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). Busse owns and operates three VHF television stations: KOLN-TV, the CBS affiliate operating on Channel 10 in the Lincoln-Hastings-Kearney, Nebraska television market, and its satellite station KGIN-TV, the CBS affiliate operating on Channel 11 serving Grand Island, Nebraska; and WEAU-TV, the NBC affiliate operating on Channel 13 serving the Eau Claire-La Crosse, Wisconsin market. The purchase of Busse is subject to FCC approval; however, the parties expect to close the transaction on or before September 1, 1998.

On August 1, 1997 the Company purchased substantially all of the assets of WITN-TV ("WITN"), the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market (the "WITN Acquisition"). On April 24, 1997, the Company purchased GulfLink Communications, Inc. (the "GulfLink Acquisition"), which is in the transportable satellite uplink business, a business in which the Company was already engaged.

In September 1996, the Company acquired substantially all of the assets of WKXT-TV ("WKXT"), WCTV-TV ("WCTV"), a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT") as a component of its strategy to promote the station's upgraded news product. On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV (the "Augusta Acquisition"). The First American Acquisition and the Augusta Acquisition are collectively referred to as the "1996 Broadcasting Acquisitions." As a result of these acquisitions, the proportion of the Company's revenues derived from television broadcasting has increased significantly. The Company anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further as a result of the announced acquisition of Busse, and the completed acquisitions of WITN and GulfLink Communications, Inc. 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 contributions of the Company's publishing and paging operations. Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Company's television broadcasting, publishing and paging operations.

	YEAR ENDED DECEMBER 31,					
	1997		1996		1995	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)					
BROADCASTING						
Revenues	$72,300	69.8%	$54,981	69.3%	$36,750	62.7%
Operating income(1)	19,309	82.9%	16,989	84.0%	10,585	94.1%
PUBLISHING						
Revenues	$24,536	23.7%	$22,845	28.8%	$21,866	37.3%
Operating income(1)	2,810	12.1%	3,167	15.7%	660	5.9%
PAGING						
Revenues	$ 6,711	6.5%	$ 1,479	1.9%	$ -0-	-0-%
Operating income(1)	1,181	5.0%	71	0.3%	-0-	-0-%

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

The operating revenues of the Company's television stations are derived from broadcast advertising revenues and, to a much lesser extent, from compensation paid by the networks to the stations for broadcasting network programming. The operating revenues of the Company's publishing operations are derived from advertising, circulation and classified revenue. Paging revenue is derived primarily from the leasing and sale of pagers.

In the Company's broadcasting operations, broadcast advertising is sold for placement either preceding or following a television station's network programming and within local and syndicated programming. Broadcast advertising is sold in time increments and is priced primarily on the basis of a program's popularity among the specific audience an advertiser desires to reach, as measured by Nielsen Media Research ("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. Approximately 56% of the gross revenues of the Company's television stations for the year ended December 31, 1997, were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts, and the remainder represented primarily by 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 each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to and including the 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 Company's publishing operations' advertising contracts are generally entered into annually and provide for a commitment as to the volume of advertising to be purchased by an advertiser during the year. The publishing operations' advertising revenues are primarily generated from local advertising. As with the broadcasting operations, the publishing operations' revenues are generally highest in the second and fourth quarters of each year.

The Company's paging subscribers either own pagers, thereby paying solely for the use of the Company's paging services, or lease pagers, thereby paying a periodic charge for both the pagers and the paging services. The terms of the lease contracts are month-to-month, three months, six months or twelve months in duration. Paging revenues are generally equally distributed throughout the year.

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

The following table sets forth certain operating data for the broadcast, publishing and paging operations for the years ended December 31, 1997, 1996 and 1995.

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
Operating income	$20,730	$16,079	$ 6,860
Add:			
Amortization of program license rights	3,501	2,743	1,647
Depreciation and amortization	14,519	7,663	3,959
Corporate overhead	2,528	3,219	2,258
Non-cash compensation and contribution to 401(k) plan, paid in Common Stock	412	1,125	2,612
Less:			
Payments for program license liabilities	(3,629)	(2,877)	(1,777)
Media cash flow (1)	$38,061	$27,952	$15,559

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(1) Of media cash flow, $30.5 million, $22.6 million and $13.6 million was attributable to the Company's broadcasting operations in 1997, 1996, and 1995, respectively; $4.9 million, $5.0 million and $2.0 million was attributable to the Company's publishing operations in 1997, 1996 and 1995, respectively; and $2.7 million, $401,000 and $-0- was attributable to the Company's paging operations in 1997, 1996 and 1995, respectively.

"MEDIA CASH FLOW" IS DEFINED AS OPERATING INCOME, 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 MEDIA 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 COMPANY'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS, AND IS NOT A MEASURE OF FINANCIAL PERFORMANCE UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND SHOULD NOT BE CONSIDERED IN ISOLATION OR AS A SUBSTITUTE FOR MEASURES OF PERFORMANCE PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Since 1995, the Company has completed several broadcasting and publishing acquisitions and a broadcasting disposition. The financial results of the Company reflect significant increases between the years ended December 31, 1997, December 31, 1996 and December 31, 1995, in substantially all line items. The principal reason for these increases was the completion by the Company of the WITN Acquisition (August 1997), the First American Acquisition (September 1996) and the Augusta Acquisition (January 1996). The purchase prices for the WITN Acquisition, the First American Acquisition and the Augusta Acquisition were approximately $41.7 million, $183.9 million and $37.2 million, respectively. The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, Louisiana-El Dorado, Arkansas on August 20, 1996. The sales price included $9.5 million in cash plus the amount of the accounts receivable (approximately $829,000).

In addition, during 1995 the Company acquired the GWINNETT DAILY POST for approximately $3.7 million (January 1995) and three area weekly advertising only direct mail publications ("Shoppers") for an aggregate purchase price of approximately $1.4 million (September 1995) (the "1995 Publishing Acquisitions").

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

The following table sets forth certain cash flow data for the Company for the years ended December 31, 1997, 1996 and 1995.

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
		(IN THOUSANDS)	
Cash flows provided by (used in)			
Operating activities	$ 9,744	$ 12,092	$ 7,600
Investing activities	(57,498)	(205,068)	(8,929)
Financing activities	49,071	193,467	1,331

BROADCASTING, PUBLISHING AND PAGING REVENUES

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

	YEAR ENDED DECEMBER 31,					
	1997		1996		1995	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
	(DOLLARS IN THOUSANDS)					
BROADCASTING						
Net Revenues:						
Local	$ 40,486	39.1%	$30,046	37.9%	$20,888	35.6%
National	21,563	20.8%	15,611	19.7%	10,881	18.6%
Network compensation	4,977	4.8%	3,661	4.6%	2,487	4.2%
Political	137	0.1%	3,612	4.6%	1,174	2.0%
Production and other	5,137	5.0%	2,051	2.5%	1,320	2.3%
	$ 72,300	69.8%	$54,981	69.3%	$36,750	62.7%
PUBLISHING						
Revenues:						
Retail	$ 11,936	11.5%	$11,090	14.0%	$11,044	18.8%
Classifieds	7,344	7.1%	6,150	7.8%	5,324	9.1%
Circulation	4,779	4.6%	4,271	5.4%	3,784	6.5%
Other	477	0.5%	1,334	1.6%	1,714	2.9%
	$ 24,536	23.7%	$22,845	28.8%	$21,866	37.3%
PAGING						
Revenues:						
Paging lease, sales and service	$ 6,712	6.5%	$ 1,479	1.9%	$ 0.0	0.0%
TOTAL	$103,548	100.0%	$79,305	100.0%	$58,616	100.0%

YEAR ENDED DECEMBER 31, 1997 TO YEAR ENDED DECEMBER 31, 1996

REVENUES. Total revenues for the year ended December 31, 1997, increased $24.2 million, or 30.6%, over the year ended December 31, 1996, from $79.3 million to $103.5 million. This increase was attributable to the net effect of (i) increased revenues as a result of the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition, (ii) increases in total non-political revenues of the Company (excluding the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition) and (iii) increased publishing revenue, all of which were partially offset by decreased political revenues and decreased revenues as a result of the KTVE Sale. The net increase in revenue due to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition less the effect of the KTVE Sale was $23.4 million, or 96.7% of the $24.2 million increase.

Broadcast net revenues increased $17.3 million, or 31.5%, over the prior year, from $55.0 million to $72.3 million. The First American Acquisition, the WITN Acquisition and the GulfLink Acquisition accounted for $16.5 million, $3.3 million and $1.4 million, respectively, of the broadcast net revenue increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast net revenues for the First American Acquisition for the year ended December 31, 1997, decreased $700,000, or 3.0%, over the year ended December 31, 1996, from $23.9 million to $23.2

million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1996, broadcast net revenues for the WITN Acquisition for the year ended December 31, 1997, decreased $600,000, or 7.0%, over the year ended December 31, 1996, from $8.4 million to $7.8 million. On a pro forma basis, political revenue for the First American Acquisition and the WITN Acquisition decreased $1.3 million and $650,000, respectively, over the prior year. The KTVE Sale resulted in a decrease in broadcast net revenues of $3.0 million. Broadcast net revenues, excluding the First American Acquisition, the WITN Acquisition and the GulfLink Acquisition and the operating results of KTVE, decreased $800,000, or 1.8%, over the prior year. This decrease of $800,000 resulted primarily from decreased political spending of $3.1 million partially offset by increased local advertising spending and national advertising spending of $1.5 million and $600,000, respectively.

Publishing revenues increased $1.7 million, or 7.4%, over the prior year, from $22.8 million to $24.5 million. Retail advertising, classified advertising and circulation revenue increased approximately $850,000, $1.2 million and $500,000, respectively, which was partially offset by a decrease in other revenue of $860,000. The increase in retail advertising and classified advertising was primarily the result of increased rates partially offset by decreased linage. The increase in circulation revenue was attributable primarily to the increase in subscribers at the GWINNETT DAILY POST from 13,000 at December 31, 1996, to 49,000 at December 31, 1997. The increases in retail advertising, classified advertising and circulation revenue were offset by a decrease of $800,000 in commercial printing and events marketing revenue.

Paging revenue increased $5.2 million, or 353.8%, from $1.5 million to $6.7 million primarily due to the First American Acquisition. On a pro forma basis, assuming the First American Acquisition had been effective January 1, 1996, paging revenue for the year ended December 31, 1997, increased $1.2 million, or 21.6%, over the year ended December 31, 1996, from $5.5 million to $6.7 million. The increase was attributable primarily to an increase in the number of units in service. The Company had approximately 67,000 units in service at December 31, 1997, and 49,500 units in service at December 31, 1996.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1997, increased $19.6 million, or 31.0%, over the year ended December 31, 1996, from $63.2 million to $82.8 million. This increase was attributable to the net effect of (i) increased expenses resulting from the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition, (ii) increased publishing expenses, (iii) decreased broadcast expense of the Company (excluding the WITN Acquisition, and the GulfLink Acquisition, the First American Acquisition and the effects of the KTVE Sale), (iv) decreased expenses resulting from the KTVE Sale and (v) decreased non-cash compensation. The net increase in operating expenses (exclusive of depreciation and amortization) due to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition less the effects of the KTVE Sale was $13.7 million.

Broadcast expenses increased $9.5 million, or 29.4%, over the prior year, from approximately $32.4 million to approximately $42.0 million. The increase was attributable primarily to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition partially offset by the KTVE Sale. The First American Acquisition, the WITN Acquisition and the GulfLink Acquisition accounted for $9.9 million, $1.9 million and $1.2 million, respectively, of the broadcast expense increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast expense for First American Acquisition for the year ended December 31, 1997, increased $1.2 million, or 9.8%, over the year ended December 31, 1996, from $12.2 million to $13.4 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1996, broadcast expense for the WITN Acquisition for the year ended December 31, 1997, decreased $200,000, or 4.2%, over the year ended December 31, 1996, from $4.8 million to $4.6 million. The KTVE Sale resulted in a decrease in broadcast expenses of $2.2 million. Broadcast expenses, excluding the results of the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition and the KTVE Sale, decreased $1.3 million, or 4.9%, as a result of lower payroll and other costs.

Publishing expenses increased $1.8 million, or 10.1%, over the prior year, from approximately $17.9 million to approximately $19.8 million. This increase resulted primarily from an increase in expenses associated with an expansion of the news product and circulation at one of the Company's properties partially offset by a decrease in work force related costs and improved newsprint pricing. Average newsprint costs decreased approximately 14.4% while newsprint consumption increased approximately 27.7%.

Paging expenses increased $3.0 million, or 275.8%, over the prior year, from $1.1 million to $4.1 primarily due to the First American Acquisition. On a pro forma basis, assuming the First American Acquisition had been effective January 1, 1996, paging expenses for the year ended December 31, 1997, increased $220,000, or 5.7%, over the year ended December 31, 1996, from $3.8 million to $4.1 million. This increase was attributable primarily to increased payroll expenses.

Corporate and administrative expenses decreased $700,000, or 21.5%, over the prior year, from $3.2 million to $2.5 million. This decrease was attributable primarily to a reduction of compensation expense at the corporate level.

DEPRECIATION AND AMORTIZATION. Depreciation of property and equipment and amortization of intangible assets was $14.5 million for the year ended December 31, 1997, compared to $7.7 million for the prior year, an increase of $6.8 million, or 89.5%. This increase was primarily the result of higher depreciation and amortization costs related to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition.

NON-CASH COMPENSATION. Non-cash compensation for the year ended December 31, 1996, resulted from the Company's employment agreement with its former President, Ralph W. Gabbard, who died unexpectedly in September 1996.

MISCELLANEOUS INCOME AND EXPENSE, NET: Miscellaneous income and expense decreased $5.7 million from income of $5.7 million for the year ended December 31, 1996, to expense of $31,000 for the year ended December 31, 1997. The decrease was primarily attributable to the KTVE Sale which resulted in a gain before income tax of $5.7 million for the year ended December 31, 1996.

INTEREST EXPENSE. Interest expense increased $10.2 million, or 87.0%, from $11.7 million for the year ended December 31, 1996, to $21.9 million for the year ended December 31, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition. The effective interest rate of the Company's senior subordinated notes at December 31, 1997 and December 31, 1996, was approximately 10.6%. The effective interest rate of the Company's Senior Credit Facility at December 31, 1997, and December 31, 1996, was approximately 7.9% and 8.4%, respectively.

EXTRAORDINARY CHARGE: An extraordinary charge of $5.3 million ($3.2 million after taxes) was recorded for the year ended December 31, 1996, in connection with the early retirement of the Company's former bank credit facility and the $25.0 million senior secured note with an institutional investor (the "Senior Note").

NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS. Net loss available to common shareholders for the Company was $2.8 million for the year ended December 31, 1997, compared with net income available to common shareholders of $2.1 million for the year ended December 31, 1996, a decrease of $4.9 million, or 231.2%.

YEAR ENDED DECEMBER 31, 1996 TO YEAR ENDED DECEMBER 31, 1995

REVENUES. Total revenues for the year ended December 31, 1996, increased $20.7 million, or 35.3%, over the year ended December 31, 1995, from $58.6 million to $79.3 million. This increase was attributable to the net effect of (i) increased revenues as a result of the 1996 Broadcasting Acquisitions, (ii) increases in total revenues of the Company (excluding the 1996 Broadcasting Acquisitions) and (iii) decreased revenues as a result of the KTVE Sale. The 1996 Broadcasting Acquisitions, net of the effects of the KTVE Sale, accounted for $16.4 million, or 79.3%, of the revenue increase.

Broadcast net revenues increased $18.2 million, or 49.6%, over the prior year, from approximately $36.7 million to approximately $55.0 million. The 1996 Broadcasting Acquisitions, net of the effects of the KTVE Sale, accounted for $14.9 million, or 81.9%, of the broadcast net revenue increase. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective on January 1, 1995, broadcast net revenues for the 1996 Broadcasting Acquisitions for the year ended December 31, 1996, increased $2.0 million, or 6.4%, over the year ended December 31, 1995, from $31.3 million to $33.3 million. The KTVE Sale resulted in a decrease in broadcast net revenues of $1.2 million. Broadcast net revenues, excluding the 1996 Broadcasting Acquisitions and the operating results of KTVE, increased $3.3 million, or 9.0%, over the prior year. Approximately $1.4 million, $1.4 million, $267,000 and $224,000 of the $3.3 million increase in broadcast net revenues, excluding the 1996 Broadcasting Acquisitions and the operating results of KTVE, was due to increased political advertising spending, local advertising spending, network compensation and other revenue, respectively.

Publishing revenues increased approximately $1.0 million, or 4.5%, over the prior year, from approximately $21.9 million to approximately $22.8 million. Circulation and classified advertising revenue comprised approximately $486,000 and $826,000, respectively, of the revenue increase. This increase in circulation revenue was attributable primarily to price increases in 1996 at two of the Company's publishing operations and the conversion of the GWINNETT DAILY POST to a five-day-a-week paper. The increase in classified advertising was primarily the result of linage increases. These increases were offset by a decrease of $267,000 in commercial printing revenue.

Paging revenue increased $1.5 million due to the 1996 Broadcasting Acquisitions. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective January 1, 1995, paging revenue for the year ended December 31, 1996, increased $621,000, or 12.7%, over the year ended December 31, 1995, from $4.9 million to $5.5 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, 1996, increased $11.5 million, or 22.2%, over the year ended December 31, 1995, from approximately $51.8 million to approximately $63.2 million. This increase was attributable to the net effect of (i) increased expenses resulting from the 1996 Broadcasting Acquisitions, (ii) increases in total expenses of the Company (excluding the 1996 Broadcasting Acquisitions), (iii) decreased expenses resulting from the KTVE Sale, (iv) decreased publishing expenses and (v) decreased non-cash compensation. The 1996 Broadcasting Acquisitions net of the effects of the KTVE Sale accounted for $9.3 million, or 80.7%, of the increase in operating expenses.

Broadcast expenses increased $9.2 million, or 39.8%, over the prior year, from $23.2 million to $32.4 million. The increase was attributable primarily to the 1996 Broadcasting Acquisitions partially offset by the KTVE Sale. The 1996 Broadcasting Acquisitions, net of the effects of the KTVE Sale, accounted for approximately $8.2 million, or 88.5%, of the broadcast expense increase. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective on January 1, 1995, broadcast expenses for the 1996 Broadcasting Acquisitions for the year ended December 31, 1996, increased

$432,000, or 2.4%, over the year ended December 31, 1995, from $17.5 million to $18.0 million. The KTVE Sale resulted in a decrease in broadcast expenses of $1.1 million. Broadcast expenses, excluding the results of the 1996 Broadcasting Acquisitions and the KTVE Sale, increased $1.1 million, or 5.3%, as a result of higher payroll costs partially offset by lower syndicated film expense.

Publishing expenses decreased $2.1 million, or 10.3%, over the prior year, from $20.0 million to $17.9 million. This decrease resulted primarily from a decrease in work force related costs, improved newsprint pricing, fewer promotions and restructuring of the advertising publications, partially offset by higher product delivery and outside service costs associated with the conversion of the GWINNETT DAILY POST to a five-day-a-week newspaper. Average newsprint costs decreased approximately 9.6%, while newsprint consumption remained relatively constant with that of the prior year.

Paging expenses increased $1.1 million due to the 1996 Broadcasting Acquisitions. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective January 1, 1995, paging expenses for the year ended December 31, 1996, increased $637,000, or 19.9%, over the year ended December 31, 1995, from $3.2 million to $3.8 million. This increase was attributable primarily to increased trade expense, administrative expense and other communication expenses.

Corporate and administrative expenses increased $960,000, or 42.5%, over the prior year, from $2.3 to $3.2 million. This increase was attributable primarily to the addition of several officers at the corporate level.

DEPRECIATION AND AMORTIZATION. Depreciation of property and equipment and amortization of intangible assets was $7.7 million for the year ended December 31, 1996, compared to $3.9 million for the prior year, an increase of approximately $3.8 million, or 93.6%. This increase was primarily the result of higher depreciation and amortization costs related to the 1996 Broadcasting Acquisitions.

NON-CASH COMPENSATION. Non-cash compensation paid in Class A Common Stock resulted from the Company's employment agreements with its former President, Ralph W. Gabbard, who died unexpectedly in September 1996 and its former chief executive officer, John T. Williams, who resigned in December 1995. Non-cash compensation was $880,000 for the year ended December 31, 1996, compared to $2.3 million for the prior year, a decrease of $1.4 million, or 62.1%. The decrease was primarily attributable to a restricted stock award to the estate of Ralph W. Gabbard, for which the Company incurred expense of $880,000 for the year ended December 31, 1996, and the 1995 restricted stock award of 150,000 shares of Class A Common Stock to John T. Williams, for which the Company incurred expense of $2.1 million for the year ended December 31, 1995.

MISCELLANEOUS INCOME AND EXPENSE, NET: Miscellaneous income and expense increased $5.6 million from $143,600 for the year ended December 31, 1995, to $5.7 million for the year ended December 31, 1996. The increase was primarily attributable to the KTVE Sale which resulted in a gain before income tax of $5.7 million.

INTEREST EXPENSE. Interest expense increased $6.3 million, or 114.9%, from $5.4 million for the year ended December 31, 1995, to $11.7 million for the year ended December 31, 1996. This increase was attributable primarily to increased levels of debt resulting from the financing of the 1996 Broadcasting Acquisitions. The Company entered into a $25.0 million notional amount five year interest rate swap agreement of June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. Effective May 14, 1996, the Company received $254,000 as settlement of this interest rate swap agreement. The effective interest rate of the Company's senior subordinated notes and Senior Credit Facility at December 31, 1996, was approximately 10.6% and 8.4%, respectively.

EXTRAORDINARY CHARGE: An extraordinary charge of $5.3 million ($3.2 million after taxes) was recorded for the year ended December 31, 1996, in connection with the early retirement of the Company's former credit facility and Senior Note.

NET INCOME AVAILABLE TO COMMON SHAREHOLDERS. Net income available to common shareholders for the Company was $2.1 million for the year ended December 31, 1996, compared with $931,000 for the year ended December 31, 1995, an increase of $1.2 million, or 130.2%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital was $10.1 million and $158,000 at December 31, 1997, and 1996, respectively. The Company's cash provided from operations was $9.7 million, $12.1 million and $7.6 million in 1997, 1996 and 1995, respectively. Management believes that current cash balances, cash flows from operations and the available funds under its Senior Credit Facility will be adequate to provide for the Company's capital expenditures, debt service, cash dividends and working capital requirements. The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit capital expenditures and additional indebtedness and require minimum levels of cash flows. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined by the Senior Credit Facility, not to exceed the lender's prime rate plus 0.5% or LIBOR plus 2.25%. The Senior Credit Facility contains restrictive provisions similar to the provisions of the Company's 105/8 % Senior Subordinated Notes due 2006. The amount borrowed by the Company and the amount available to the Company under the Senior Credit Facility at December 31, 1997, was $65.6 million and $59.4 million, respectively.

The Company's cash used in investing activities was $57.5 million, $205.1 million and $8.9 million in 1997, 1996 and 1995, respectively. The decrease of $147.6 million from 1996 to 1997 was primarily due to the net impact of the WITN Acquisition and the GulfLink Acquisition in 1997 offset by the 1996 Broadcasting Acquisitions in 1996. The increase of $196.2 million from 1995 to 1996 was primarily due to the 1996 Broadcasting Acquisitions.

The Company was provided $49.1 million, $193.5 million and $1.3 million in cash by financing activities in 1997, 1996 and 1995, respectively. In 1997, the decrease in cash provided by financing activities resulted primarily from the funding obtained for the 1996 Broadcasting Acquisitions in 1996 partially offset by the borrowings for the WITN Acquisition and the GulfLink Acquisition, purchase of treasury stock and increased payments on long-term debt in 1997. During the year ended December 31, 1997, the Company purchased 172,900 shares of Class A Common Stock at an average cost of $19.99 per share. The Company placed these shares in treasury. The cash provided in 1996 resulted primarily from the (i) the issuance of $160.0 million principal amount of 105/8 % Senior Subordinated Notes due 2006, (ii) borrowings under the Company's revolving credit agreements, (iii) public sale of Class B Common Stock and (iv) the private placement of preferred stock, partially offset by the repayment of certain long-term debt and the purchase of Class B Common Stock by the Company. During the year ended December 31, 1996, the Company purchased 172,300 shares of Class B Common Stock at an average cost of $15.90 per share.

On August 1, 1997, the Company completed the WITN Acquisition. The purchase price of approximately $41.7 million consisted of $40.7 million cash, $600,000 in acquisition related costs, and approximately $400,000 in liabilities which were assumed by the Company. On April 24, 1997, the Company completed the GulfLink Acquisition. The purchase price of approximately $5.2 million consisted of $4.1 million cash, $127,000 in acquisition related costs, and approximately $1.0 million in liabilities which were assumed by the Company.

On September 30, 1996, the Company completed the First American Acquisition. The purchase price for the First American Acquisition was approximately $183.9 million and consisted of $175.5 million cash, $1.8 million in acquisitions-related costs, and the assumption of approximately $6.6 million of liabilities.

In addition to the consummation of the First American Acquisition, the Company implemented a financing plan to increase liquidity and improve operating and financial flexibility. Pursuant to the financing plan, the Company (i) retired approximately $45.3 million principal amount of outstanding indebtedness under its former credit facility, together with accrued interest thereon, (ii) retired approximately $25.0 million aggregate principal amount of outstanding indebtedness under its senior note, together with accrued interest thereon and a prepayment fee, (iii) issued $10.0 million of its Series A Preferred Stock in exchange for the Company's 8% note owned by the Company's principal stockholder, with warrants to purchase up to 487,500 shares of Class A Common Stock (representing 9.7% of the Class A Common Stock issued and outstanding at December 31, 1997, after giving effect to the exercise of such warrants), (iv) issued to Bull Run Corporation, J. Mack Robinson (Chairman of the Board of Bull Run Corporation and the President and Chief Executive Officer of the Company) and certain of his affiliates $10.0 million of its Series B Preferred Stock with warrants to purchase up to 500,000 shares of Class A Common Stock (representing 9.9% of the Class A Common Stock issued and outstanding at December 31, 1997, after giving effect to the exercise of such warrants) for cash proceeds of $10.0 million and (v) entered into the Senior Credit Facility which is comprised of a term loan of $71.5 million and a revolving credit facility of $53.5 million aggregating $125.0 million.

Effective September 17, 1997, the Senior Credit Facility was modified to reinstate the original credit limit of $125.0 million, which had been reduced by the scheduled reductions. The modification also reduced the interest rate spread over LIBOR and/or Prime and reduced the fee applied to available funds from 0.50% to 0.375%. The modification also extended the maturity date from June 30, 2003 to June 30, 2004. The modification required a one-time fee of $250,000.

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, cumulative cash dividends at an annual rate of $800 per share. 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 the funds of the Company legally available for payment, cumulative dividends 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 Company completed the KTVE Sale, on August 20, 1996. The sales price included $9.5 million in cash plus the amount of the accounts receivable on the date of closing to the extent collected by the buyer, (approximately $829,000). The company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million.

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, 1997, payments on program license liabilities due in 1998, which will be paid with cash from operations, were approximately $4.0 million.

In 1997 the Company's paging operations acquired a 800 Mhz SMR license for $1,037,000. The Company made a down payment of $207,400 during 1997 with the remaining balance of $829,600 becoming due in 1998.

In 1997, the Company made $10.4 million in capital expenditures, relating primarily to the broadcasting and publishing operations, and paid $3.6 million for program broadcast rights. The Company anticipates making $5.0 million in capital expenditures in 1998.

In connection with the First American Acquisition, the FCC ordered the Company to divest itself of WALB-TV ("WALB") and WJHG-TV ("WJHG") by March 31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG-TV would not be required. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC will complete its rulemaking on this subject. Also in July of 1997, the Company obtained FCC approval to transfer control of WALB to a trustee with a view towards the trustee effecting (i) a swap of WALB's assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986, or (ii) a sale of such assets. Under the trust arrangement, the Company relinquished operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the trustee 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 an adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness. The FCC allowed up to six months for the trustee to file an application seeking the agency's approval of a swap or sale. This six month period expired in January 1998, without a swap or sale being executed. The trustee filed an application requesting a six-month extension to effect a swap or sale. The FCC has not yet ruled on this extension application.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of December 31, 1997, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

Management 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.

In February 1998, the Company announced that it had signed a definitive purchase agreement to purchase all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price of approximately $112.0 million includes cash and the assumption of Busse's 11 5/8% Senior Secured Notes. If completed, the Company currently believes that funding for this acquisition could be provided primarily through cash flow from operations and borrowing under the Senior Credit Facility, although there can be no assurances that this acquisition would not require the sale by the Company of any debt or equity securities.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT

This annual report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "believes," "expects," "anticipates," "estimates" and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe the Company's future strategic plans, goals, or objectives are also forward-looking statements. Readers of this Report are cautioned that any forward-

looking statements, including those regarding the intent, belief or current expectations of the Company or management, are not guarantees of future performance, results or events and involve risks and uncertainties, and that actual results and events may differ materially from those in the forward-looking statements as a result of various factors including, but not limited to, (i) general economic conditions in the markets in which the Company operates, (ii) competitive pressures in the markets in which the Company operates, (iii) the effect of future legislation or regulatory changes on the Company's operations and (iv) other factors described from time to time in the Company's filings with the Securities and Exchange Commission. The forward-looking statements included in this report are made only as of the date hereof. The Company undertakes no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Atlanta, Georgia
January 27, 1998 except for the Pending Acquisition of
Note C, as to which the date is February 13, 1998

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,367,300	$ 1,051,044
Trade accounts receivable, less allowance for doubtful accounts of $1,253,000 and $1,450,000, respectively	19,527,316	17,373,839
Recoverable income taxes	2,132,284	1,747,687
Inventories	846,891	624,118
Current portion of program broadcast rights	2,850,023	2,362,742
Other current assets	968,180	379,793
Total current assets	28,691,994	23,539,223
Property and equipment (NOTES C AND D):		
Land	889,696	785,682
Buildings and improvements	11,951,700	11,253,559
Equipment	52,899,547	41,954,501
	65,740,943	53,993,742
Allowance for depreciation	(23,635,256)	(18,209,891)
	42,105,687	35,783,851
Other assets:		
Deferred loan costs (NOTE D)	8,521,356	9,141,262
Goodwill and other intangibles (NOTE C)	263,425,447	228,692,018
Other	2,306,143	1,507,488
	274,252,946	239,340,768
	$345,050,627	$298,663,842

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)

	DECEMBER 31, 1997	DECEMBER 31, 1996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable (includes $850,000 and $1,000,000 payable to Bull Run Corporation, respectively)	$ 3,321,903	$ 6,043,062
Employee compensation and benefits	3,239,694	7,152,786
Accrued expenses	2,265,725	1,059,769
Accrued interest	4,533,366	4,858,775
Current portion of program broadcast obligations	2,876,060	2,362,144
Deferred revenue	1,966,166	1,764,509
Current portion of long-term debt	400,000	140,000
Total current liabilities	18,602,914	23,381,045
Long-term debt (NOTES C AND D)	226,676,377	173,228,049
Other long-term liabilities:		
Program broadcast obligations, less current portion	617,107	545,889
Supplemental employee benefits (NOTE E)	1,161,218	1,357,275
Deferred income taxes (NOTE H)	1,203,847	-0-
Deferred interest swap	-0-	191,055
Other acquisition related liabilities (NOTES C AND D)	4,494,016	4,735,013
	7,476,188	6,829,232
Commitments and contingencies (NOTES C, D AND J)		
Stockholders' equity (NOTES C, D AND F)		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued 2,060 and 2,000, respectively ($20,600,000 and $20,000,000 aggregate liquidation value, respectively)	20,600,000	20,000,000
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 5,307,716 and 5,155,331 shares, respectively	10,358,031	7,994,235
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 3,515,364 and 3,500,000 shares, respectively	66,397,804	66,065,762
Retained earnings	6,603,191	10,543,940
	103,959,026	104,603,937
Treasury Stock at cost, Class A Common, 781,921 and 663,180 shares, respectively	(9,011,369)	(6,638,284)
Treasury Stock at cost, Class B Common, 166,790 and 172,300 shares, respectively	(2,652,509)	(2,740,137)
	92,295,148	95,225,516
	$345,050,627	$298,663,842

See accompanying notes.

GRAY COMMUNCIATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Operating revenues:			
Broadcasting (less agency commissions)	$72,300,105	$54,981,317	$36,750,035
Publishing	24,536,348	22,845,274	21,866,220
Paging	6,711,426	1,478,608	-0-
	103,547,879	79,305,199	58,616,255
Expenses:			
Broadcasting	41,966,493	32,438,405	23,201,990
Publishing	19,753,387	17,949,064	20,016,137
Paging	4,051,359	1,077,667	-0-
Corporate and administrative	2,528,461	3,218,610	2,258,261
Depreciation	7,800,217	4,077,696	2,633,360
Amortization of intangible assets	6,718,302	3,584,845	1,325,526
Non-cash compensation paid in common stock (NOTE E)	-0-	880,000	2,321,250
	82,818,219	63,226,287	51,756,524
	20,729,660	16,078,912	6,859,731
Miscellaneous income and (expense), net (NOTE B)	(30,851)	5,704,582	143,612
	20,698,809	21,783,494	7,003,343
Interest expense	21,861,267	11,689,053	5,438,374
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CHARGE	(1,162,458)	10,094,441	1,564,969
Federal and state income taxes (NOTE H)	240,000	4,416,000	634,000
INCOME (LOSS) BEFORE EXTRAORDINARY CHARGE	(1,402,458)	5,678,441	930,969
Extraordinary charge on extinguishment of debt, net of applicable income tax benefit of $2,157,000 (NOTE D)	-0-	3,158,960	-0-
NET INCOME (LOSS)	(1,402,458)	2,519,481	930,969
Preferred dividends (NOTE F)	1,409,690	376,849	-0-
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (2,812,148)	$ 2,142,632	$ 930,969
Average outstanding common shares-basic	7,901,697	5,398,436	4,354,183
Average outstanding common shares-diluted	7,901,697	5,625,548	4,481,317
Basic earnings per common share:			
Income (loss) before extraordinary charge available to common stockholders	$ (0.36)	0.98	0.21
Extraordinary charge	-0-	(0.58)	-0-
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (0.36)	$ 0.40	$ 0.21
Diluted earnings per common share:			
Income (loss) before extraordinary charge available to common stockholders	$ (0.36)	$ 0.94	$ 0.21
Extraordinary charge	-0-	(0.56)	-0-
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (0.36)	$ 0.38	$ 0.21

See accompanying notes.

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

	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK		RESTRICTED STOCK DEFERRALS	CLASS A TREASURY STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT		SHARES	AMOUNT
Balance at December 31, 1994	-0-	$ -0-	4,841,785	$3,393,747	-0-	$ -0-	$ -0-	(663,180)	(6,638,284)
Net Income	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Class A Common Stock Cash Dividends ($0.08) per share	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock (NOTES C, E, F, G AND I):									
401(k) Plan	-0-	-0-	18,354	298,725	-0-	-0-	-0-	-0-	-0-
Directors' Stock Plan	-0-	-0-	23,500	238,919	-0-	-0-	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	5,000	48,335	-0-	-0-	-0-	-0-	-0-
Gwinnett Acquisition	-0-	-0-	44,117	500,000	-0-	-0-	-0-	-0-	-0-
Restricted Stock Plan	-0-	-0-	150,000	2,081,250	-0-	-0-	(2,081,250)	-0-	-0-
Amortization of Restricted Stock Plan deferrals	-0-	-0-	-0-	-0-	-0-	-0-	2,081,250	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	235,000	-0-	-0-	-0-	-0-	-0-
Balance at December 31, 1995	-0-	-0-	5,082,756	6,795,976	-0-	-0-	-0-	(663,180)	(6,638,284)
Net Income	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Common Stock Cash Dividends:									
Class A ($0.08 per share)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Class B ($0.02 per share)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Purchase of Class B Common Stock (NOTE F)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock (NOTES F, G AND I):									
401(k) Plan	-0-	-0-	13,225	262,426	-0-	-0-	-0-	-0-	-0-
Directors' Stock Plan	-0-	-0-	22,500	228,749	-0-	-0-	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	36,850	358,417	-0-	-0-	-0-	-0-	-0-
Preferred Stock Dividends	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock Warrants (NOTES C AND F)	-0-	-0-	-0-	2,600,000	-0-	-0-	-0-	-0-	-0-
Issuance of Series A Preferred Stock in exchange for Subordinated Note (NOTES C AND F)	1,000	10,000,000	-0-	(2,383,333)	-0-	-0-	-0-	-0-	-0-
Issuance of Series B Preferred Stock (NOTES C AND F)	1,000	10,000,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class B Common Stock, net of expenses (NOTES C AND F)	-0-	-0-	-0-	-0-	3,500,000	66,065,762	-0-	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	132,000	-0-	-0-	-0-	-0-	-0-
Balance at December 31, 1996	2,000	$20,000,000	5,155,331	$7,994,235	3,500,000	$66,065,762	$ -0-	(663,180)	$(6,638,284)

	CLASS B TREASURY STOCK		RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT		
Balance at December 31, 1994	$ -0-	$ -0-	$8,245,626	$5,001,089
Net Income	-0-	-0-	930,969	930,969
Class A Common Stock Cash Dividends ($0.08) per share	-0-	-0-	(348,689)	(348,689)
Issuance of Class A Common Stock (NOTES C, E, F, G AND I):				
401(k) Plan	-0-	-0-	-0-	298,725
Directors' Stock Plan	-0-	-0-	-0-	238,919
Non-qualified Stock Plan	-0-	-0-	-0-	48,335
Gwinnett Acquisition	-0-	-0-	-0-	500,000
Restricted Stock Plan	-0-	-0-	-0-	-0-
Amortization of Restricted Stock Plan deferrals	-0-	-0-	-0-	2,081,250
Income tax benefits relating to stock plans	-0-	-0-	-0-	235,000
Balance at December 31, 1995	-0-	-0-	8,827,906	8,985,598
Net Income	-0-	-0-	2,519,481	2,519,481
Common Stock Cash Dividends:				
Class A ($0.08 per share)	-0-	-0-	(357,598)	(357,598)
Class B ($0.02 per share)	-0-	-0-	(69,000)	(69,000)
Purchase of Class B Common Stock (NOTE F)	(172,300)	(2,740,137)	-0-	(2,740,137)
Issuance of Class A Common Stock (NOTES F, G AND I):				
401(k) Plan	-0-	-0-	-0-	262,426

Directors' Stock Plan	-0-	-0-	-0-	228,749
Non-qualified Stock Plan	-0-	-0-	-0-	358,417
Preferred Stock Dividends	-0-	-0-	(376,849)	(376,849)
Issuance of Class A Common Stock Warrants (NOTES C AND F)	-0-	-0-	-0-	2,600,000
Issuance of Series A Preferred Stock in exchange for Subordinated Note (NOTES C AND F)	-0-	-0-	-0-	7,616,667
Issuance of Series B Preferred Stock (NOTES C AND F)	-0-	-0-	-0-	10,000,000
Issuance of Class B Common Stock, net of expenses (NOTES C AND F)	-0-	-0-	-0-	66,065,762
Income tax benefits relating to stock plans	-0-	-0-	-0-	132,000
Balance at December 31, 1996	(172,300)	$(2,740,137)	$10,543,940	$95,225,516

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK		RESTRICTED STOCK
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	DEFERRALS
Balance at December 31, 1996	2,000	$20,000,000	5,155,331	$7,994,235	3,500,000	$66,065,762	$ -0-
Net Loss	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Common Stock Cash Dividends ($0.08) per share	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Preferred Stock Dividends	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock (NOTES F AND G):							
Directors' Stock Plan	-0-	-0-	501	9,645	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	29,850	317,151	-0-	-0-	-0-
Stock Award Restricted Stock Plan	-0-	-0-	122,034	1,200,000	-0-	-0-	-0-
Issuance of Class B Common Stock (NOTES F AND I):							
401(k) Plan	-0-	-0-	-0-	-0-	15,364	282,384	-0-
Issuance of Series B Preferred Stock (NOTE F)	60	600,000	-0-	-0-	-0-	-0-	-0-
Issuance of Treasury Stock (NOTES F, G, AND I):							
401(k) Plan	-0-	-0-	-0-	-0-	-0-	49,658	-0-
Non-qualified Stock Plan	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Purchase of Class A Common Stock (NOTE F):	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	837,000	-0-	-0-	-0-
Balance at December 31, 1997	2,060	$20,600,000	5,307,716	$10,358,031	3,515,364	$66,397,804	$ -0-

	CLASS A TREASURY STOCK		CLASS B TREASURY STOCK		RETAINED	
	SHARES	AMOUNT	SHARES	AMOUNT	EARNINGS	TOTAL
Balance at December 31, 1996	(663,180)	$(6,638,284)	(172,300)	$(2,740,137)	$10,543,940	$95,225,516
Net Loss	-0-	-0-	-0-	-0-	(1,402,458)	(1,402,458)
Common Stock Cash Dividends ($0.08) per share	-0-	-0-	-0-	-0-	(628,045)	(628,045)
Preferred Stock Dividends	-0-	-0-	-0-	-0-	(1,409,690)	(1,409,690)
Issuance of Class A Common Stock (NOTES F AND G):						
Directors' Stock Plan	-0-	-0-	-0-	-0-	-0-	9,645
Non-qualified Stock Plan	-0-	-0-	-0-	-0-	-0-	317,151
Stock Award Restricted Stock Plan	-0-	-0-	-0-	-0-	-0-	1,200,000
Issuance of Class B Common Stock (NOTES F AND I):						
401(k) Plan	-0-	-0-	-0-	-0-	-0-	282,384
Issuance of Series B Preferred Stock (NOTE F)	-0-	-0-	-0-	-0-	-0-	600,000
Issuance of Treasury Stock (NOTES F, G, AND I):						
401(k) Plan	-0-	-0-	5,510	87,628	-0-	137,286
Non-qualified Stock Plan	54,159	1,082,390	-0-	-0-	(500,556)	581,834
Purchase of Class A Common Stock (NOTE F):	(172,900)	(3,455,475)	-0-	-0-	-0-	(3,455,475)
Income tax benefits relating to stock plans	-0-	-0-	-0-	-0-	-0-	837,000
Balance at December 31, 1997	(781,921)	$(9,011,369)	(166,790)	$(2,652,509)	$6,603,191	$92,295,148

See accompanying notes.

GRAY COMMUNCIATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
OPERATING ACTIVITIES			
Net income (loss)	$ (1,402,458)	2,519,481	930,969
Items which did not use (provide) cash:			
Depreciation	7,800,217	4,077,696	2,633,360
Amortization of intangible assets	6,718,302	3,584,845	1,325,526
Amortization of deferred loan costs	1,083,303	270,813	-0-
Amortization of program broadcast rights	3,501,330	2,742,712	1,647,035
Amortization of original issue discount on 8% subordinated note	-0-	216,667	-0-
Write-off of loan acquisition costs from early extinguishment of debt	-0-	1,818,840	-0-
Gain on disposition of television station	-0-	(5,671,323)	-0-
Payments for program broadcast rights	(3,629,350)	(2,877,128)	(1,776,796)
Compensation paid in Common Stock	-0-	880,000	2,321,250
Supplemental employee benefits	(196,057)	(855,410)	(370,694)
Common Stock contributed to 401(K) Plan	419,670	262,426	298,725
Deferred income taxes	1,283,000	(44,000)	863,000
Loss on asset sales	108,998	201,792	1,652
Changes in operating assets and liabilities:			
Trade accounts receivable	(369,675)	(1,575,723)	(852,965)
Recoverable income taxes	(384,597)	(400,680)	(1,347,007)
Inventories	(101,077)	254,952	(181,034)
Other current assets	(569,745)	(21,248)	(11,208)
Trade accounts payable	(2,825,099)	2,256,795	1,441,745
Employee compensation and benefits	(2,848,092)	2,882,379	1,011,667
Accrued expenses	1,279,164	(2,936,155)	(414,087)
Accrued interest	(325,409)	3,794,284	78,536
Deferred revenue	201,657	710,286	-0-
Net cash provided by operating activities	9,744,082	12,092,301	7,599,674
INVESTING ACTIVITIES			
Acquisitions of newspaper businesses	-0-	-0-	(2,084,621)
Acquisition of television businesses	(45,644,942)	(210,944,547)	-0-
Disposition of television business	-0-	9,480,699	-0-
Purchases of property and equipment	(10,371,734)	(3,395,635)	(3,279,721)
Proceeds from asset sales	24,885	174,401	2,475
Deferred acquisition costs	(89,056)	-0-	(3,330,481)
Payments on purchase liabilities	(764,658)	(243,985)	(111,548)
Other	(652,907)	(139,029)	(125,356)
Net cash used in investing activities	(57,498,412)	(205,068,096)	(8,929,252)
FINANCING ACTIVITIES			
Proceeds from borrowings:			
Short-term debt	-0-	-0-	1,200,000
Long-term debt	75,350,000	238,478,310	2,950,000
Repayments of borrowings:			
Short-term debt	-0-	-0-	(1,200,000)
Long-term debt	(22,678,127)	(109,434,577)	(1,792,516)
Deferred loan costs	(463,397)	(9,410,078)	-0-
Dividends paid	(1,428,045)	(426,598)	(348,689)
Class A Common Stock transactions	1,163,796	719,166	522,254
Proceeds from equity offering - Class B Common Stock, net of expenses	-0-	66,065,762	-0-
Proceeds from offering of Series B Preferred Stock	-0-	10,000,000	-0-
Proceeds from settlement of interest rate swap agreement	-0-	215,000	-0-
Proceeds from sale of treasury shares	581,834	-0-	-0-
Purchase of Class A Common Stock	(3,455,475)	-0-	-0-
Purchase of Class B Common Stock	-0-	(2,740,137)	-0-
Net Cash provided by financing activities	49,070,586	193,466,848	1,331,049
Increase in cash and cash equivalents	1,316,256	491,053	1,471
Cash and cash equivalents at beginning of year	1,051,044	559,991	558,520
Cash and cash equivalents at end of year	$ 2,367,300	$ 1,051,044	$ 559,991

See accompanying notes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

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

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 $15,000 and $13,000 at December 31, 1997, and 1996, respectively.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast under program license agreements are initially recorded at the beginning of the license period for the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use 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 the license fees payable under the program license agreements is classified as current or long-term, in accordance with the payment terms of the various license agreements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Buildings, improvements and equipment are depreciated over estimated useful lives of approximately 35 years, 10 years and 5 years, respectively.

INTANGIBLE ASSETS

Intangible assets are stated at cost and 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 $11.5 million and $4.9 million as of December 31, 1997, and 1996, respectively.

If facts and circumstances indicate that the goodwill, property and equipment or other assets may be impaired, an evaluation of continuing value would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with these assets would be compared to their 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. Consolidated state income tax returns are filed when appropriate and separate state tax returns are filed when consolidation is not available. Local tax returns are filed separately.

CAPITAL STOCK

On August 17, 1995, the Board of Directors declared a 50% stock dividend on the Company's Class A 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

In 1997, the Financial Accounting Standards Board issued Statement No. 128, EARNINGS PER SHARE ("Statement 128"). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to Statement 128 requirements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK BASED COMPENSATION

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 print advertising and 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.

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 long-term debt and preferred stock.

The estimated fair value of long-term debt at December 31, 1997, and 1996 exceeded book value by $13.2 million and $9.6 million, respectively. The fair value of the Preferred Stock at December 31, 1997, and 1996 approximates its carrying value at that date. The Company does not anticipate settlement of long-term debt or preferred stock 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.

RECLASSIFICATIONS

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 1997 format.

B. BUSINESS DISPOSITION

The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, Louisiana-El Dorado, Arkansas on August 20, 1996. The sales price included $9.5 million in cash plus the amount of the accounts receivable on the date of closing to the extent collected by the buyer, to be paid to the Company within 150 days following the closing date (approximately $829,000). The Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million in connection with the sale.

C. 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 ACQUISITION

On February 13, 1998, the Company signed a definitive purchase agreement to acquire all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price is approximately $112.0 million plus Busse's cash and cash equivalents less Busse's indebtedness including its 11 5/8 % Senior Secured Notes due 2000. Busse owns and operates three VHF television stations: KOLN-TV, the CBS-affiliate operating on Channel 10 in the Lincoln-Hastings-Kearney, Nebraska television market, and its satellite station KGIN-TV, the CBS-affiliate operating on Channel 11 serving Grand Island, Nebraska; and WEAU-TV, the NBC-affiliate operating on Channel 13 serving the Eau Claire-La Crosse, Wisconsin market. The purchase of Busse is subject to FCC approval. The acquisition is expected to close on or before September 1, 1998. In connection with the proposed purchase of Busse, the Company will pay Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, a finder's fee equal to 1% of the purchase price for services performed, none of which was due and included in accounts payable at December 31, 1997.

1997 ACQUISITIONS

On August 1, 1997, the Company purchased the assets of WITN-TV ("WITN"). The purchase price of approximately $41.7 million consisted of $40.7 million cash, $600,000 in acquisition related costs, and approximately $400,000 in liabilities which were assumed by the Company. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $37.4 million. The Company funded the costs of this acquisition through its senior credit facility (the "Senior Credit Facility"). WITN operates on Channel 7 and is the NBC-affiliate in the Greenville-Washington-New Bern, North Carolina market. In connection with the purchase of the assets of WITN ("WITN Acquisition"), the Company will pay Bull Run a fee equal to 1% of the purchase price for services performed, of which $400,000 was due and included in accounts payable at December 31, 1997.

On April 24, 1997, the Company acquired all of the issued and outstanding common stock of GulfLink Communications, Inc. ("GulfLink") of Baton Rouge, Louisiana. The GulfLink operations include nine transportable satellite uplink trucks. The purchase price of approximately $5.2 million consisted of $4.1 million cash, $127,000 in acquisition related costs, and approximately $1.0 million in liabilities which were assumed by the Company. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $3.6 million. The Company funded the costs of this acquisition through its Senior Credit Facility. In connection with the purchase of the common stock of GulfLink Communications, Inc. (the "GulfLink Acquisition"), the Company paid Bull Run a fee equal to $58,000 for services performed.

Unaudited pro forma operating data for the year ended December 31, 1997, and 1996 is presented below and assumes that the WITN Acquisition and the GulfLink Acquisition occurred on January 1, 1996.

C. BUSINESS ACQUISITIONS (CONTINUED)

1997 ACQUISITIONS (CONTINUED)

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the WITN Acquisition and the GulfLink Acquisition occurred on January 1, 1996, 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. Unaudited pro forma operating data for the year ended December 31, 1997, are as follows (in thousands, except per common share data):

	GRAY	WITN ACQUISITION	GULFLINK ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
			(UNAUDITED)		
Revenues, net	$ 103,548	$ 4,551	$ 1,000	$ -0-	$109,099
Net income (loss) available to common stockholders	$ (2,812)	$ 146	$ 74	$ (1,177)	$ (3,769)
Income (loss) per share available to common stockholders:					
Basic	$ (0.36)				$ (0.48)
Diluted	$ (0.36)				$ (0.48)

Unaudited pro forma operating data for the year ended December 31, 1996, are as follows (in thousands, except per common share data):

	GRAY	WITN ACQUISITION	GULFLINK ACQUISITION	KTVE SALE	FIRST AMERICAN ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
				(UNAUDITED)			
Revenues, net	$ 79,305	$ 8,431	$ 2,937	$ (2,968)	$ 21,203	$ -0-	$108,908
Net income (loss) available to common stockholders	$ 2,143	$ 2,566	$ 197	$ (3,173)	$ (1,773)	$ (2,357)	$ (2,397)
Income (loss) per share available to common stockholders:							
Basic	$ 0.40						(0.30)
Diluted	0.38						(0.30)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the GulfLink Acquisition, the WITN Acquisition, and the First American Acquisition (as defined in 1996 ACQUISITIONS), (ii) depreciation and amortization of assets acquired, (iii) the reduction of employee compensation related to severance and vacation compensation for 1996, (iv) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the WITN Acquisition and the First American Acquisition, (v) increased pension expense for the First American Acquisition, and (vi) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 include the 3,500,000 Class B Common shares issued in connection with the First American Acquisition.

C. BUSINESS ACQUISITIONS (CONTINUED)

1996 ACQUISITIONS

On September 30, 1996, the Company purchased from First American Media, Inc. substantially all of the assets used in the operation of two CBS-affiliated television stations, WCTV-TV ("WCTV") serving Tallahassee, Florida-Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, as well as those assets used in the operations of a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT") as a component of its strategy to promote the station's upgraded news product. The purchase price of approximately $183.9 million consisted of $175.5 million cash, $1.8 million in acquisition related costs, and the assumption of approximately $6.6 million of liabilities. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $160.2 million. The Company's Board of Directors has agreed to pay Bull Run, a fee equal to approximately $1.7 million for services performed in connection with this acquisition. At December 31, 1997, $450,000 of this fee remains payable and is included in accounts payable.

The First American Acquisition and the early retirement of the Company's existing bank credit facility and other senior indebtedness (SEE NOTES D AND F), were funded as follows: net proceeds of $66.1 million from the sale of 3,500,000 shares of the Company's Class B Common Stock; net proceeds of $155.2 million from the sale of $160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes due 2006; $16.9 million of borrowings under the Senior Credit Facility; and $10.0 million net proceeds from the sale of 1,000 shares of the Company's Series B Preferred Stock with warrants to purchase 500,000 shares of the Company's Class A Common Stock at $24 per share. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained an opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants.

In connection with the First American Acquisition, the Federal Communications Commission (the "FCC") ordered the Company to apply for FCC approval to divest itself of WALB-TV ("WALB") in Albany, Georgia and WJHG-TV ("WJHG") in Panama City, Florida by March 31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC will complete its rulemaking on this subject. Also in July of 1997, the Company obtained FCC approval to transfer control of WALB to a trust with a view towards the trustee effecting (i) a swap of WALB's assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986, or (ii) a sale of such assets. Under the trust arrangement, the Company relinquished operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the trustee 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 an adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness. The FCC allowed up to six months for the trustee to file an application seeking the agency's approval of a swap or sale. This six month period expired in January 1998 without a swap or

C. BUSINESS ACQUISITIONS (CONTINUED)

1996 ACQUISITIONS (CONTINUED)

sale being executed. The trustee has filed an application requesting a six month extension to effect a swap or sale. The FCC has not yet ruled on this extension application.

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

	WALB		WJHG	
	DECEMBER 31,			
	1997	1996	1997	1996
	(UNAUDITED)			
Current assets	$2,379	$2,058	$1,053	$1,079
Property and equipment	1,473	1,579	848	981
Other assets	471	100	346	55
Total assets	$4,323	$3,737	$2,247	$2,115
Current liabilities	$ 994	$1,189	$ 350	$ 497
Other liabilities	215	242	127	-0-
Stockholder's equity	3,114	2,306	1,770	1,618
Total liabilities and stockholder's equity	$4,323	$3,737	$2,247	$2,115

Condensed unaudited income statement data for the three years ended December 31, 1997, for WALB and WJHG are as follows (in thousands):

	WALB			WJHG		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	1997	1996	1995	1997	1996	1995
	(UNAUDITED)					
Broadcasting revenues	$ 10,090	$ 10,611	$ 9,445	$ 4,896	$5,217	$ 3,843
Expenses	4,770	5,070	4,650	3,757	4,131	3,573
Operating income	5,320	5,541	4,795	1,139	1,086	270
Other income (expense)	3	7	17	(5)	6	60
Income before income taxes	$ 5,323	$ 5,548	$4,812	$1,134	$1,092	$ 330
Net income	$ 3,295	$ 3,465	$2,984	$ 737	$ 685	$ 205

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 $37.2 million which included 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. 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 fee to Bull Run.

Funds for the Augusta Acquisition were obtained from the modification of the Company's existing bank debt on January 4, 1996 (the "Bank Loan") to a variable rate reducing revolving credit facility (the

C. BUSINESS ACQUISITIONS (CONTINUED)

1996 ACQUISITIONS (CONTINUED)

"Old 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, 337,500 shares of which were vested at December 31, 1997. The remainder vests in four equal annual installments of 37,500 shares through 2001. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. The Old Credit Facility provided for a credit line up to $54.2 million. This 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%.

As part of the financing arrangements for the First American Acquisition, the Old Credit Facility and the Senior Note were retired and the Company issued to Bull Run, in exchange for the 8% Note, 1,000 shares of Series A Preferred Stock. The warrants issued with the 8% Note were retired and the warrants issued with the Series A Preferred Stock will vest in accordance with the same schedule described above provided the Series A Preferred Stock remains outstanding. The Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.58 per basic common share and $0.56 per diluted common share for 1996) in connection with the early retirement of the $25.0 million Senior Note and the write-off of loan acquisition costs from the early extinguishment of debt.

Unaudited pro forma operating data for the year ended December 31, 1996, and 1995 is presented below and assumes that the Augusta Acquisition, the First American Acquisition, and the KTVE Sale occurred on January 1, 1995.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Augusta Acquisition, the First American Acquisition, and the KTVE Sale occurred on January 1, 1995, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Unaudited pro forma operating data for the year ended December 31, 1996, are as follows (in thousands, except per common share data):

	GRAY	KTVE SALE	FIRST AMERICAN ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
			(UNAUDITED)		
Revenues, net	$79,305	$(2,968)	$21,203	$ -0-	$ 97,540
Net income (loss) before extraordinary charge available to common stockholders	$ 5,301	$(3,173)	$(1,773)	$ (1,743)	$ (1,388)
Income (loss) per share available to common stockholders before extraordinary charge:					
Basic	$ 0.98				$ (0.17)
Diluted	$ 0.94				$ (0.17)

C. BUSINESS ACQUISITIONS (CONTINUED)

1996 ACQUISITIONS (CONTINUED)

Unaudited pro forma operating data for the year ended December 31, 1995, are as follows (in thousands, except per common share data):

	GRAY	AUGUSTA ACQUISITION	KTVE SALE	FIRST AMERICAN ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
			(UNAUDITED)			
Revenues, net	$58,616	$8,660	$(4,188)	$27,321	$ 228	$90,637
Net income (loss) available to common stockholders	$ 931	$2,242	$ (278)	$ 6,348	$(15,316)	$(6,073)
Income (loss) per share available to common stockholders:						
Basic	$ 0.21					$ (0.77)
Diluted	$ 0.21					$ (0.77)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the First American Acquisition and the WRDW Acquisition, (ii) depreciation and amortization of assets acquired, (iii) the reduction of employee compensation related to severance and vacation compensation for 1996, (iv) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the First American Acquisition, (v) increased pension expense for the First American Acquisition, and (vi) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 and 1995 include the 3,500,000 Class B Common shares issued in connection with the First American Acquisition.

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 $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 the Company's 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 fee to Bull Run.

D. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	DECEMBER 31,	
	1997	1996
10 5/8% Senior Subordinated Notes due 2006	$160,000	$160,000
Senior Credit Facility	65,630	12,680
Other	1,446	688
	227,076	173,368
Less current portion	(400)	(140)
	$226,676	$173,228

On September 20, 1996, the Company sold $160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes (the "Senior Subordinated Notes") due 2006. The net proceeds of $155.2 million from this offering, along with the net proceeds from (i) the KTVE Sale, (ii) the issuance of Class B Common Stock, (iii) the issuance of Series B Preferred Stock and (iv) borrowings under the Senior Credit Facility, were used in financing the First American Acquisition as well as the early retirement of the Senior Note and the Old Credit Facility. Interest on the Senior Subordinated Notes is payable semi-annually on April 1 and October 1, commencing April 1, 1997.

The Senior Subordinated Notes are jointly and severally guaranteed (the "Subsidiary Guarantees") by all of the Company's subsidiaries (the "Subsidiary Guarantors"). The obligations of the Subsidiary Guarantors under the Subsidiary Guarantees is subordinated, to the same extent as the obligations of the Company in respect of the Senior Subordinated Notes, to the prior payment in full of all existing and future senior debt of the Subsidiary Guarantors (which will include any guarantee issued by such Subsidiary Guarantors of any senior debt).

The Company is a holding company with no material independent assets or operations, other than its investment in its subsidiaries. The aggregate assets, liabilities, earnings and equity of the Subsidiary Guarantors are substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis. The Subsidiary Guarantors are, directly or indirectly, wholly-owned subsidiaries of the Company and the Subsidiary Guarantees will be full, unconditional and joint and several. All of the current and future direct and indirect subsidiaries of the Company will be guarantors of the Notes. Accordingly, separate financial statements and other disclosures of each of the Subsidiary Guarantors are not presented because management has determined that they are not material to investors.

The Company has a $125.0 million Senior Credit Facility, as amended, which is comprised of a term loan (the "Term Commitment") of $71.5 million and a revolving credit facility (the "Revolving Commitment") of $53.5 million. The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit capital expenditures and additional indebtedness and require minimum levels of cash flows. The Senior Subordinated Notes also contained similar restrictive provisions. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined by the Senior Credit Facility, not to exceed the lender's prime rate plus 0.5% or LIBOR plus 2.25%. The effective interest rate on the Senior Credit Facility at December 31, 1997, and 1996 was 7.9% and 8.4%, respectively.

D. LONG-TERM DEBT (CONTINUED)

The amounts available under the Revolving Commitment will be reduced by $7,356,000 in 1998; $8,025,000 in years 1999, 2000, 2001 and 2002; $9,363,000 in 2003; and $4,681,000 in 2004.

The amount borrowed by the Company on December 31, 1999 under the Term Commitment will be converted to a four and one-half year term loan. The principal of the term loan shall be repaid in nineteen consecutive quarterly installments commencing on December 31, 1999. Each of the first five quarterly installments are equal to 2.50% of the principal balance outstanding at December 31, 1999. Each of the next thirteen quarterly installments are equal to 3.75% of the principal balance outstanding at December 31, 1999. The nineteenth and final installment due June 30, 2004 will be equal to the remaining balance outstanding and any outstanding interest due on June 30, 2004.

The Company is charged a commitment fee on the excess of the aggregate average daily undisbursed amount of the Revolving Commitment and the Term Commitment over the amount outstanding. At December 31, 1997, the commitment fee was 0.375% per annum. At December 31, 1997, the Company has approximately $65.6 million outstanding on the Senior Credit Facility. At December 31, 1997, the Company's interest rate for the Senior Credit Facility, was based on a spread over LIBOR of 1.75% or Prime.

The Senior Subordinated Notes and the Senior Credit Facility are secured by substantially all of the Company's existing and hereafter acquired assets.

At December 31, 1997, retained earnings of approximately $1.4 million and $1.0 million were available for dividends to holders of preferred and common stock, respectively.

Aggregate minimum principal maturities on long-term debt as of December 31, 1997, were as follows (in thousands):

1998	$ 400
1999	8,593
2000	10,300
2001	11,165
2002	11,058
Thereafter	185,560
	$227,076

The Company made interest payments of approximately $21.3 million, $7.6 million, and $5.4 million during 1997, 1996 and 1995, respectively.

In the quarter ended September 30, 1996, the Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.58 per basic common share or $0.56 per diluted common share) in connection with the early retirement of the Senior Note and the write-off of unamortized loan acquisition costs of the Senior Note and the Old Credit Facility resulting from the early extinguishment of debt.

E. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS

The Company had an employment agreement with its former President, Ralph W. Gabbard, which provided for an award of 122,034 shares of the Company's Class A Common Stock if his employment with the Company continued until September 1999. Mr. Gabbard died unexpectedly in September 1996. The Company awarded these shares to the estate of Mr. Gabbard. Approximately $880,000 and $240,000 of expense was recorded in 1996 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 recorded approximately $596,000 of corporate and administrative expenses during the year ended December 31, 1995, in accordance with the terms of the amended employment agreement. Additionally, in December 1995 the Company issued 150,000 shares of the Company's Class A 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 was recognized in 1995 for the 150,000 shares of Class A Common Stock issued pursuant to this agreement.

The Company has entered into supplemental retirement benefit and other agreements with certain key employees. These benefits are to be paid primarily 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 following summarizes activity relative to certain officers' agreements and the supplemental employee benefits (in thousands):

	DECEMBER 31,		
	1997	1996	1995
Beginning liability	$ 3,158	$ 2,938	$ 2,518
Provision	161	918	976
Forfeitures	-0-	-0-	(169)
Net expense	161	918	807
Payments	(1,793)	(698)	(387)
Net change	(1,632)	220	420
Ending liability	1,526	3,158	2,938
Less current portion	(365)	(1,801)	(725)
	$ 1,161	$ 1,357	$ 2,213

F. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

The Company amended its Articles of Incorporation to increase to 50,000,000 the number of shares of all classes of stock which the Company has the authority to issue, of which, 15,000,000 shares are designated Class A Common Stock, 15,000,000 shares are designated Class B Common Stock, and 20,000,000 shares are designated "blank check" preferred stock for which the Board of Directors has the authority to determine the rights, powers, limitations and restrictions. The rights of the Company's Class A and Class B Common Stock are identical, except that the Class A Common Stock has 10 votes per share and the Class B Common Stock has one vote per share. The Class A and Class B Common Stock

F. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE (CONTINUED)

receive cash dividends on an equal per share basis. In September 1996, the Company issued 1,000 shares each of Series A and Series B Preferred Stock relating to the financing arrangements for the First American Acquisition.

As part of the financing for the Augusta Acquisition, funding was obtained from the 8% Note, which included the issuance of detachable warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at $17.88 per share, 337,500 shares of which were vested at December 31, 1997. The remainder vests in four equal annual installments of 37,500 through 2001. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. This allocation of the proceeds was based on an estimate of the relative fair values of the 8% Note and the warrants on the date of issuance. The Company amortized the original issue discount on a ratable basis in accordance with the original terms of the 8% Note through September 30, 1996. The Company recognized approximately $217,000 in amortization costs for the $2.6 million original issue discount. In September 1996, the Company exchanged the 8% Note with Bull Run for 1,000 shares of liquidation preference Series A Preferred Stock yielding 8%. The warrants issued with the 8% Note were retired and the warrants issued with the Series A Preferred Stock will vest in accordance with the same schedule described above provided the Series A Preferred Stock remains outstanding. The holder of the Series A Preferred Stock will receive cash dividends at an annual rate of $800 per share. The liquidation or redemption price of the Series A Preferred Stock is $10,000 per share.

As part of the financing for the First American Acquisition, the Company also issued 1,000 shares of Series B Preferred Stock, with warrants to purchase an aggregate of 500,000 shares of Class A Common Stock at an exercise price of $24.00 per share. Of these warrants 300,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained a written opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants. The holders of the Series B Preferred Stock will receive dividends at an annual rate of $600 per share, except the Company at its option may pay these dividends in cash or in additional shares. The liquidation or redemption price of the Series B Preferred Stock is $10,000 per share. In September 1997, the Company issued 60 shares of Series B Preferred Stock as payment of dividends to the holders of its then outstanding Series B Preferred Stock.

On September 24, 1996, the Company completed a public offering of 3.5 million shares of its Class B Common Stock at an offering price of $20.50 per share. The proceeds, net of expenses, from this public offering of approximately $66.1 million were used in the financing of the First American Acquisition.

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 1997, 1996 and 1995, certain directors purchased an aggregate of 501, 22,500, and 23,500 shares of Class A Common Stock, respectively, under this plan.

F. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE (CONTINUED)

The Company's Board of Directors authorized the purchase of up to two million shares of the Company's Class A or Class B Common Stock to either be retired or reissued in connection with the Company's benefit plans, including the Capital Accumulation Plan and the Incentive Plan. During 1997 and the fourth quarter of 1996, the Company purchased 172,900 Class A Common Stock shares and 172,300 Class B Common Stock shares, respectively, under this authorization. The 1997 and 1996 treasury shares were purchased at prevailing market prices with an average effective price of $19.99 and $15.90 per share, respectively, and were funded from the Company's operating cash flow.

Statement of Financial Accounting Standards No. 128. "Earnings Per Share" is effective for full-year 1997 and subsequent periods. Statement 128 modifies the method for calculations of net income per share applicable to common stockholders and also requires a reconciliation between basic and diluted per share amounts.

The following table presents the effect of Statement 128 (in thousands, except per common share data):

	1997	1996	1995
Net income (loss) available to common stockholders	$ (2,812)	$ 2,143	$ 931
Basic average common shares outstanding	7,902	5,398	4,354
Basic net income (loss) per share available to common stockholders	$ (0.36)	$ 0.40	$ 0.21
Basic average common shares outstanding	7,902	5,398	4,354
Stock compensation awards	-0-	228	127
Diluted average common shares outstanding	7,902	5,626	4,481
Diluted net income (loss) per share available to common stockholders	$ (0.36)	$ 0.38	$ 0.21

G. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE 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 employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123 "Accounting for Stock-Based Compensation" ("Statement 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

The Company has a long-term incentive plan (the "Incentive Plan") under which 200,000 shares of the Company's Class A Common Stock and 400,000 shares of the Company's Class B 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. Shares of Common Stock underlying outstanding options or performance awards are counted against the Incentive Plan's maximum shares while such options or awards are outstanding.

G. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN (CONTINUED)

Under the Incentive Plan, the options granted typically vest after a two year period and expire three years after full vesting. Options granted through December 31, 1997, have been granted at a price which approximates fair market value on the date of the grant.

The Company also has a Stock Purchase Plan which grants outside directors up to 7,500 shares of the Company's Common Stock. Under this Stock Purchase Plan, the options granted vest at the beginning of the upcoming calendar year and expire at the end of January following that calendar year.

Prior to 1996, grants under the Incentive Plan and the Stock Purchase Plan were made with the Company's Class A Common Stock. In 1996, the Company amended its Incentive Plan and Stock Purchase Plan for grants to be made with Class B Common Stock. Therefore, all options granted subsequent to 1995, were made with Class B Common Stock.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of Statement 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995, respectively: risk-free interest rates of 5.82%, 5.43% and 6.06%; dividend yields of 0.32%, 0.50% and 0.53%; volatility factors of the expected market price of the Company's Class A Common Stock of 0.28, 0.33 and 0.26; and a weighted-average expected life of the options of 4.5, 2.0 and 2.7 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except per common share data):

	1997	1996	1995
Pro forma income (loss) before extraordinary charge available to common stockholders	$ (3,174)	$ 5,190	$ 792
Pro forma income (loss) before extraordinary charge per common share:			
Basic	$ (0.40)	$ 0.96	$ 0.18
Diluted	$ (0.40)	$ 0.92	$ 0.18

G. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN (CONTINUED)

A summary of the Company's stock option activity for Class A Common Stock, and related information for the years ended December 31 follows (in thousands, except weighted average data):

	YEAR ENDED DECEMBER 31,					
	1997		1996		1995	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Stock options outstanding - beginning of year	198	$13.11	263	$12.39	199	$ 9.80
Options granted	-0-		-0-		111	16.14
Options exercised	(85)	10.75	(52)	9.93	(29)	10.08
Options forfeited	-0-		(6)	12.44	(18)	10.45
Options expired	(52)	19.25	(7)	10.17	-0-	
Stock options outstanding - end of year	61	$11.15	198	$13.11	263	$12.39
Exercisable at end of year	61	$11.15	164	$13.06	86	$ 9.84
Weighted-average fair value of options granted during the year						$ 3.37

Exercise prices for Class A Common Stock options outstanding as of December 31, 1997, ranged from $9.67 to $13.33 for the Incentive Plan. The weighted-average remaining contractual life of the Class A Common Stock options outstanding for the Incentive Plan is 1.4 years.

A summary of the Company's stock option activity for Class B Common Stock, and related information for the years ended December 31 follows (in thousands, except weighted average data):

	YEAR ENDED DECEMBER 31,			
	1997		1996	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Stock options outstanding - beginning of year	68	$15.88	-0-	
Options granted	352	25.20	68	$15.88
Stock options outstanding - end of year	420	$23.70	68	$15.88
Exercisable at end of year	53	$15.88	-0-	
Weighted-average fair value of options granted during the year		$ 8.10		$ 3.22

Exercise prices for Class B Common Stock options outstanding as of December 31, 1997, ranged

G. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN (CONTINUED)

from $15.88 to $25.50 for the Incentive Plan and $15.88 to $24.19 for the Stock Purchase Plan. The weighted-average remaining contractual life of the Class B Common Stock options outstanding for the Incentive Plan and Stock Purchase Plan is 4.7 and 0.5 years, respectively.

H. 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.

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Current			
Federal	$ (1,620)	$1,462	$ (253)
State and local	577	841	24
Deferred	1,283	(44)	863
	$ 240	$2,259	$ 634

The total provision for income taxes for 1996 included a tax benefit of $2.2 million which related to an extraordinary charge on extinguishment of debt.

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

	1997	1996
Deferred tax liabilities:		
Net book value of property and equipment	$ 2,670	$1,165
Goodwill	6,281	2,370
Other	120	120
Total deferred tax liabilities	9,071	3,655
Deferred tax assets:		
Liability under supplemental retirement plan	526	1,241
Allowance for doubtful accounts	499	619
Difference in basis of assets held for sale	941	941
Federal operating loss carryforwards	4,412	-0-
State and local operating loss carryforwards	1,952	1,164
Other	290	511
Total deferred tax assets	8,620	4,476
Valuation allowance for deferred tax assets	(753)	(753)
Net deferred tax assets	7,867	3,723
Deferred tax assets (liabilities) net	$(1,204)	$ 68

H. INCOME TAXES (CONTINUED)

A substantial portion of the federal operating loss carryforwards will expire in the year ended December 31, 2012.

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 thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Statutory rate applied to income	$ (395)	$ 1,625	$ 532
State and local taxes, net of federal tax benefits	572	(7)	91
Permanent difference relating to sale of KTVE	-0-	602	-0-
Other items, net	63	39	11
	$ 240	$ 2,259	$ 634

The Company made income tax payments of approximately $275,000, $3.6 million and $742,000 during 1997, 1996 and 1995, respectively. At December 31, 1997, the Company had current recoverable income taxes of approximately $2.1 million.

I. 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.

The net pension expense includes the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Service costs - benefits earned during the year	$ 429	$ 360	$ 221
Interest cost on projected benefit obligation	442	409	384
Actual return on plan assets	(608)	(574)	(655)
Net amortization and deferral	121	126	187
Net pension expense	$ 384	$ 321	$ 137
Assumptions:			
Discount rate	7.0%	7.0%	8.0%
Expected long-term rate of return on assets	7.0%	7.0%	8.0%
Estimated rate of increase in compensation levels	5.0%	5.0%	6.0%

I. RETIREMENT PLANS (CONTINUED)

PENSION PLAN (CONTINUED)

The following summarizes the plan's funded status and related assumption (in thousands):

	DECEMBER 31,	
	1997	1996
Actuarial present value of accumulated benefit obligation is as follows:		
Vested	$5,962	$ 5,675
Other	491	291
	$6,453	$ 5,966
Plan assets at fair value, primarily mutual funds and an unallocated insurance contract	$6,919	$ 6,282
Projected benefit obligation	(7,053)	(6,483)
Plan assets less than projected benefit obligation	(134)	(201)
Unrecognized net (gain) loss	(58)	72
Unrecognized net asset	(246)	(300)
Pension liability included in consolidated balance sheet	$ (438)	$ (429)
Assumptions:		
Discount rate	7.0%	7.0%
Estimated rate of increase in compensation levels	5.0%	5.0%

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.

On November 14, 1996, the Company amended its Capital Accumulation Plan to allow an investment option in the Company's Class B Common Stock. The amendment also allows for the Company's percentage match to be made by a contribution of the Company's Class B Common Stock, effective in 1997. On December 13, 1996, the Company reserved 200,000 shares of the Company's Class B Common Stock for issuance under the Capital Accumulation Plan.

Employee contributions to the Capital Accumulation Plan, not to exceed 6% of the employees' gross pay, are matched by Company contributions. Until 1997, the Company's percentage match was made by a contribution of the Company's Class A Common Stock. The Company's percentage match amount is declared by the Company's Board of Directors before the beginning of each plan year. In 1997, the Company's percentage match has been made by a contribution of the Company's Class B Common Stock. The Company's percentage match was 50% for the three years ended December 31, 1997. The Company contributions vest, based upon each employee's number of years of service, over a period not to exceed five years.

Company matching contributions aggregating $419,670, $262,426 and $298,725 were charged to expense for 1997, 1996 and 1995, respectively, for the issuance of 20,874 Class B shares; 13,225 and 18,354 Class A shares, respectively.

J. COMMITMENTS AND CONTINGENCIES

The Company has various operating lease commitments for equipment, land and office space. The Company has also entered into commitments for various television film exhibition rights for which the license periods have not yet commenced. Rent expense resulting from operating leases for the years ended December 31, 1997, 1996 and 1995 were $1.4 million, $501,000, and $267,000, respectively. Future minimum payments under operating leases with initial or remaining noncancelable lease terms in excess of one year and obligations under film exhibition rights for which the license period have not yet commenced are as follows (in thousands):

	LEASE	FILM	TOTAL
1998	$1,434	$1,083	$ 2,517
1999	1,255	3,128	4,383
2000	674	2,693	3,367
2001	505	1,650	2,155
2002	290	920	1,210
Thereafter	732	-0-	732
	$4,890	$9,474	$14,364

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.

K. INFORMATION ON BUSINESS SEGMENTS

The Company operates in three business segments: broadcasting, publishing and paging. The broadcasting segment operates eight television stations at December 31, 1997. The publishing segment operates three daily newspapers in three different markets, and two area weekly advertising only publications in southwest Georgia and north Florida. The paging operations are located in Florida, Georgia, and Alabama. The following tables present certain financial information concerning the Company's three operating segments (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
OPERATING REVENUES:			
Broadcasting	$ 72,300	$54,981	$36,750
Publishing	24,536	22,845	21,866
Paging	6,712	1,479	-0-
	$ 103,548	$79,305	$58,616
OPERATING PROFIT:			
Broadcasting	$ 17,509	$ 14,106	$ 7,822
Publishing	2,206	1,980	(962)
Paging	1,015	(7)	-0-
Total operating profit	20,730	16,079	6,860
Miscellaneous income and (expense), net	(31)	5,704	144
Interest expense	(21,861)	(11,689)	(5,439)
Income (loss) before income taxes	$ (1,162)	$ 10,094	$ 1,565

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

K. INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
DEPRECIATION AND AMORTIZATION EXPENSE:			
Broadcasting	$ 11,024	$ 5,554	$ 2,723
Publishing	1,973	1,730	1,190
Paging	1,480	329	-0-
	14,477	7,613	3,913
Corporate	42	50	46
Total depreciation and amortization expense	$ 14,519	$ 7,663	$ 3,959
CAPITAL EXPENDITURES:			
Broadcasting	$ 5,000	$ 2,674	$ 2,285
Publishing	4,235	692	973
Paging	975	-0-	-0-
	10,210	3,366	3,258
Corporate	162	30	22
Total capital expenditures	$ 10,372	$ 3,396	$ 3,280

	DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
IDENTIFIABLE ASSETS:			
Broadcasting	$287,254	$ 245,614	$54,022
Publishing	19,818	16,301	18,170
Paging	23,950	23,764	-0-
	331,022	285,679	72,192
Corporate	14,029	12,985	6,048
Total identifiable assets	$345,051	$ 298,664	$78,240

L. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Year Ended December 31, 1997	FISCAL QUARTERS FIRST	SECOND	THIRD	FOURTH
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)			
Operating revenues	$ 22,761	$ 25,499	$ 25,984	$ 29,304
Operating income	4,337	6,124	4,271	5,998
Net income (loss)	(461)	622	(1,162)	(401)
Net income (loss) available to common stockholders	(811)	272	(1,513)	(760)
Basic income (loss) per share	$ (0.10)	$ 0.03	$ (0.19)	$ (0.10)
Diluted income (loss) per share	$ (0.10)	$ 0.03	$ (0.19)	$ (0.10)

Year Ended December 31, 1996	FISCAL QUARTERS FIRST	SECOND	THIRD	FOURTH
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)			
Operating revenues	$ 17,027	$ 18,487	$ 16,699	$ 27,092
Operating income	2,678	4,633	2,381	6,387
Income before extraordinary charge	311	1,490	2,947	930
Extraordinary charge	-0-	-0-	3,159	-0-
Net income (loss)	311	1,490	(212)	930
Net income (loss) available to common stockholders	311	1,490	(239)	580
Basic income (loss) per share				
Income before extraordinary charge available to common stockholders	$ 0.07	$ 0.33	$ 0.62	$ 0.07
Extraordinary charge	0.00	0.00	(0.67)	0.00
Net income (loss) available to common stockholders	$ 0.07	$ 0.33	$ (0.05)	$ 0.07
Diluted income (loss) per share				
Income before extraordinary charge available to common stockholders	$ 0.07	$ 0.32	$ 0.58	$ 0.07
Extraordinary charge	0.00	0.00	(0.63)	0.00
Net income (loss) available to common stockholders	$ 0.07	$ 0.32	$ (0.05)	$ 0.07

Because of the method used in calculating per share data, the quarterly per share data will not necessarily add to the per share data as computed for the year.

The third quarter of 1996 includes the KTVE Sale and an extraordinary charge. As a result of the KTVE Sale, the Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million (SEE NOTE B). The Company recorded an extraordinary charge on extinguishment of debt of $5.3 million and an income tax benefit of $2.2 million (SEE NOTE D).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning executive officers, in response to this item, is incorporated from PART I herein. Information concerning directors of the registrant, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1998 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1998 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1998 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning Certain Relationships and Related Transactions, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1998 Annual Meeting of Shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) (1) AND (2) LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS SCHEDULES

(1) FINANCIAL STATEMENTS

The following consolidated financial statements of Gray Communications Systems, Inc. are included in item 8:

Report of Independent Auditors

Consolidated Balance Sheets at December 31, 1997 and 1996

Consolidated Statements of Operations for the years ended December 31, 1997, 1996 and 1995

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES.

The following financial statement schedule of Gray Communications Systems. Inc and subsidiaries is included in Item 14(d):

Schedule II - Valuation and qualifying accounts.

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(B) REPORTS ON FORM 8-K.

A current report on Form 8-K was filed on August 14, 1997, reporting the purchase of certain assets from Raycom-U.S., Inc. used in the operation of WITN-TV in the Greenville-Washington-New Bern, North Carolina market area. A current report on Form 8K/A was filed on October 14, 1997 as an amendment to the current report on Form 8-K that was filed on August 14, 1997.

(C) EXHIBITS.

EXHIBIT NO.	DESCRIPTION	PAGE
3.1	Restated Articles of Incorporation of Gray Communications Systems, Inc., (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended December 31, 1996)	
3.2	By-Laws of Gray Communications Systems, Inc. as amended (incorporated by reference to Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 1996)	
4.1	Indenture for the Company's 105/8% Senior Subordinated Notes due 2006 (incorporated by reference to Exhibit 4.1 to the Company's registration statement on Form S-1 (Registration No. 333-4338) (Exhibit 4.1 to the "Note S-1")	
4.2	Loan Agreement dated September 23, 1996 by and among Gray Communications Systems, Inc., as the borrower, KeyBank National Association as agent, NationsBank, N.A. (South) as Co-Agent and CIBC, Inc., CoreStates Bank, N.A., and the Bank of New York (incorporated by reference to Exhibit 4(i) to the Company's Form 8-K, filed October 15, 1996)	
4.3	Borrower Security Agreement dated September 30, 1996 by and between Gray Communications Systems, Inc. and KeyBank National Association (incorporated by reference to Exhibit 4(ii) to the Company's Form 8-K, filed October 15, 1996)	
4.4	Subsidiary Security Agreement dated September 30, 1996 between Gray Communications Systems, Inc., its subsidiaries and KeyBank National Association (incorporated by reference to Exhibit 4(iii) to the Company's Form 8-K, filed October 15, 1996)	

EXHIBIT NO.	DESCRIPTION	PAGE
4.5	Borrower Pledge Agreement dated September 30, 1996 between Gray Communications Systems, Inc. and KeyBank National Association (incorporated by reference to Exhibit 4(iv) to the Company's Form 8-K, filed October 15, 1996)	
4.6	Subsidiary Pledge Agreement dated September 30, 1996 by and among WRDW-TV, Inc., WJHG-TV, Inc., Gray Kentucky Television, Inc. and KeyBank National Association (incorporated by reference to Exhibit 4(v) to the Company's Form 8-K, filed October 15, 1996)	
4.7	Subsidiary Guarantee dated September 30, 1996 between Gray Communications Systems, Inc., its subsidiaries and KeyBank National Association (incorporated by reference to Exhibit 4(vi) to the Company's Form 8-K, filed October 15, 1996)	
4.8	First Amendment to Loan Agreement dated September 8, 1997, by and among Gray Communications Systems, Inc., as the borrower, KeyBank National Association as agent, NationsBank, N.A. (South) as Co-Agent and CIBC, Inc., CoreStates Bank, N.A., and the Bank of New York	80
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	Long-Term Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the fiscal year ended June 30, 1993)	
10.3	Asset Purchase Agreement, dated January 6, 1995, between the Company and Still Publishing, Inc. (incorporated by reference to Exhibit 10(h) to the 1994 Form 10-K)	
10.4	Capital Accumulation Plan, effective October 1, 1994 (incorporated by reference to Exhibit 10(i) to the 1994 Form 10-K)	
10.5	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)	
10.6	Warrant, dated January 4, 1996, to purchase 487,500 shares of Class A Common Stock (incorporated by reference to the Note S-1)	
10.7	Form of amendment to employment agreement between the Company and Ralph W. Gabbard, dated January 1, 1996 (incorporated by reference to Exhibit 10(m) to the 1995 Form 10-K)	
10.8	Employment Agreement, dated February 12, 1996 between the Company and Robert A. Beizer (incorporated by reference to the Note S-1)	
10.9	Form of Preferred Stock Exchange and Purchase Agreement between the Company and Bull Run Corporation (incorporated by reference to the Note S-1)	

EXHIBIT NO.	DESCRIPTION	PAGE
10.10	Form of Warrant to purchase 500,000 shares of Class A Common Stock (incorporated by reference to the Note S-1)	
10.11	Form of amendment to employment agreement between the Company and Robert A. Beizer, dated December 12, 1996 (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1996)	
10.12	Amendment to the Company's Long-Term Incentive Plan (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1996)	
10.13	First Amendment to the Company's Capital Accumulation Plan (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1996)	
10.14	Asset Purchase Agreement by and among the Company and Raycom-U.S., Inc. and WITN-TV, Inc. (incorporated by reference to item 10 of the current report filed on Form 8-K (Registration No. 001-13796) on August 14, 1997)	
10.15	Stock Purchase Agreement by and Among Busse Broadcasting Corporation, South Street Corporate Recovery Fund I, L.P., Greycliff Leveraged Fund 1993, L.P., South Street Leveraged Corporate Recovery Fund, L.P. and Gray Communications Systems, Inc., as dated February 13, 1998.	102
21	List of Subsidiaries	
23	Consent of Ernst & Young L.L.P. for the financial statements of Gray Communications Systems, Inc.	154
27	Financial data schedule for Gray Communications Systems, Inc.	155

(D) FINANCIAL STATEMENT SCHEDULES - The response to this section is submitted as a part of (a)(1) and (2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAY COMMUNICATIONS SYSTEMS, INC.

Date: March 4, 1998 By: /s/ J. MACK ROBINSON
J. Mack Robinson, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Date: March 4, 1998 By: /s/ WILLIAM A. FIELDER, III
William A. Fielder, III VICE PRESIDENT & CFO (CHIEF FINANCIAL OFFICER)

Date: March 4, 1998 By: /s/ JACKSON S COWART, IV
Jackson S. Cowart, IV (CHIEF ACCOUNTING OFFICER)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 4, 1998 By: /s/ WILLIAM E. MAYHER, III
William E. Mayher, III CHAIRMAN OF THE BOARD

Date: March 4, 1998 By: /s/ J. MACK ROBINSON
J. Mack Robinson, PRESIDENT AND CHIEF EXECUTIVE OFFICER AND DIRECTOR

Date: March 4, 1998 By: /s/ RICHARD L. BOGER
Richard L. Boger, DIRECTOR

Date: March 4, 1998 By: /s/ HILTON H. HOWELL, JR.
Hilton H. Howell, Jr., DIRECTOR

Date: March 4, 1998 By: /s/ HOWELL W. NEWTON
Howell W. Newton, DIRECTOR

Date: March 4, 1998 By: /s/ HUGH NORTON
Hugh Norton, DIRECTOR

Date: March 4, 1998 By: /s/ ROBERT S. PRATHER, JR.
Robert S. Prather, Jr., DIRECTOR

Date: March 4, 1998 By: /s/ HARRIETT J. ROBINSON
Harriett J. Robinson., DIRECTOR

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of Gray Communications Systems, Inc. as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, and have issued our report thereon dated January 27, 1998 (except for the Pending Acquisition of Note C, as to which the date is February 13, 1998). Our audits also included the financial statement schedule listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Atlanta, Georgia
January 27, 1998

GRAY COMMUNICATIONS SYSTEMS, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS (1)	BALANCE AT END OF PERIOD
YEAR ENDED DECEMBER 31, 1997					
Allowance for doubtful accounts	$1,450,000	$188,000	$ 31,000(2)	$416,000	$1,253,000
YEAR ENDED DECEMBER 31, 1996					
Allowance for doubtful accounts	$ 450,000	$894,000	$ 583,000(2)	$477,000	$1,450,000
YEAR ENDED DECEMBER 31, 1995					
Allowance for doubtful accounts	$ 694,000	$384,000	$ 33,000(2)	$661,000	$ 450,000

(1) Deductions are write-offs of amounts not considered collectible.

(2) Represents amounts recorded in certain allocations of purchase prices for the Company's acquisitions.

Exhibit 4.8

FIRST AMENDMENT TO LOAN AGREEMENT

This FIRST AMENDMENT TO LOAN AGREEMENT is made and entered into as of September 8, 1997, by and among GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Borrower"), the FINANCIAL INSTITUTIONS listed on the signature pages hereof (the "Banks"), NATIONSBANK, N.A. (SOUTH), as co-agent, and KEYBANK NATIONAL ASSOCIATION, as agent (the "Agent").

RECITALS

A. The Borrower, the Agent, the Co-Agent and the Banks entered into a Loan Agreement dated as of September 23, 1996 (the "Original Agreement"), pursuant to which the Banks agreed to make available to the Borrower loans of up to $53,500,000 on a reducing revolving credit basis and $71,500,000 on a revolving credit converting to a term loan basis. The Original Agreement, as amended hereby, may be referred to hereinafter as the "Loan Agreement." Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Loan Agreement.

B. The Borrower desires to extend the Conversion Date of the Term Loans until December 31, 1999, extend the Termination Date of all of the Loans until June 30, 2004, reduce the Applicable Margin, revise certain of the financial covenants and make certain other changes in the Original Agreement. Subject to the terms and conditions of this Amendment, the Agent, the Co Agent and the Banks have agreed to such requests.

AGREEMENTS

In consideration of the foregoing Recitals and of the covenants and representations contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Agent, the Co-Agent and the Banks agree as follows:

1. Amendments. Subject to the satisfaction of the conditions set forth in Section 2 of this Amendment, the Original Agreement shall be amended as follows:

(a) The definition of the term "Applicable Margin" in Section 1.1 shall be amended in its entirety to read as follows:

"Applicable Margin" means, as of any date of determination, the percentage determined from the following table based upon the Leverage Ratio:

Leverage Ratio:	Applicable Margin for Base Rate Loans:	Applicable Margin for LIBOR Loans:
Greater than 6.25:1.0 but less than or equal to 6.50:1.0	0.50%	2.25%
Greater than 6.00:1.0 but less than or equal to 6.25:1.0	0.25%	2.00%
Greater than 5.50:1.0 but less than or equal to 6.00:1.0	0.00%	1.75%
Greater than 5.00:1.0 but less than or equal to 5.50:1.0	0.00%	1.50%
Greater than 4.50:1.0 but less than or equal to 5:00:1.0	0.00%	1.25%
Greater than 4.00:1.0 but less than or equal to 4.50:1.0	0.00%	1.00%
Less than or equal 4.0:1.0	0.00%	0.75%

(b) The definition of the term "Conversion Date" in Section 1.1 shall be amended in its entirety to read as follows: "Conversion Date" means December 31, 1999."

(c) The definition of the term "Termination Date" in Section 1.1 shall be amended in its entirety to read as follows: "Termination Date" means June 30, 2004."

(d) Section 1.1 shall be amended by adding the following

definition in proper alphabetical order:

"First Amendment" means the First Amendment to Loan Agreement dated as of September 8, 1997, among the Borrower, the Agent, the Co-Agent and the Banks.

(e) Section 2.1(b) shall be amended in its entirety to read as follows:

(b) On each date set forth in the table below, the Revolving Commitment shall automatically reduce by the amount set forth for such date in such table:

Calendar Year	March 31	June 30	September 30	December 31
1998	$1,839,062	$1,839,062	$1,839,063	$1,839,063
1999	$2,006,250	$2,006,250	$2,006,250	$2,006,250
2000	$2,006,250	$2,006,250	$2,006,250	$2,006,250
2001	$2,006,250	$2,006,250	$2,006,250	$2,006,250
2002	$2,006,250	$2,006,250	$2,006,250	$2,006,250
2003	$2,340,625	$2,340,625	$2,340,625	$2,340,625
2004	$2,340,625	$2,340,625		

(f) Section 2.2(d) shall be amended by deleting the table that is set forth therein and replacing it with the following table:

Calendar Year	March 31	June 30	September 30	December 31
1999	0.0%	0.0%	0.0%	2.5%
2000	2.5%	2.5%	2.5%	2.5%
2001	3.75%	3.75%	3.75%	3.75%
2002	3.75%	3.75%	3.75%	3.75%
2003	3.75%	3.75%	3.75%	3.75%
2004	3.75%	all remaining principal		

(g) Section 2.6(a) shall be amended in its entirety to read as follows:

(a) Commitment Fees. The Borrower shall pay to the Agent for the benefit of the Banks a non-refundable commitment fee of 1/2% per annum for periods prior to the effective date of the First Amendment and 3/8% per annum for periods commencing on or after the effective date of the First Amendment (based on a year having 360 days and actual days elapsed) on the excess of the aggregate average daily undisbursed amount of each Commitment over the aggregate stated amount of the Letters of Credit then outstanding issued under such Commitment;

provided, however, that the commitment fee shall be 1/4% per annum for any day on which the Leverage Ratio is less than or equal to 4.5 to 1.0. Such commitment fee shall (i) commence to accrue as of the date hereof and continue for each day to and including the Termination Date, with respect to the Revolving Commitment, and to and including the Conversion Date, with respect to the Term Commitment, (ii) be in addition to any other fee required by the terms and conditions of this Agreement, (iii) be payable quarterly in arrears on each Quarterly Date and, with respect to the Revolving Commitment, on the date the Revolving Commitment is terminated, and, with respect to the Term Commitment, on the date the Term commitment is terminated, and (iv) be shared by the Banks in accordance with their Ratable Shares.

(h) Section 2.16 shall be amended by deleting the reference to "December 31, 1998" in the second line thereof and replacing it with a reference to "December 31, 1999."

(i) Section 8.1 shall be amended (i) by deleting the reference to "$150,000,000" in clause (f) thereof and replacing it with a reference to "$160,000,000," and (ii) by adding a new clause (h) at the end thereof which shall read as follows:

(h) unsecured Indebtedness incurred by WALB-TV, Inc. pursuant to a line of credit in an aggregate principal amount not to exceed $1,000,000,which shall be guaranteed by the Borrower.

(j) Section 8.3 shall be amended by adding at the end thereof a new clause (f) which shall read as follows: "and (f) a guaranty by the Borrower of Indebtedness incurred by WALB TV, Inc., to the extent permitted pursuant to Section 8.1(h)."

(k) Section 8.7 shall be amended in its entirety to read as follows:

8.7 Capital Expenditures. The Borrower and its Subsidiaries shall not make Capital Expenditures (i) in either of calendar years 1997 or 1998 which exceed in the aggregate for such year $10,000,000, or (ii) in any calendar year after 1998 which exceed in the aggregate for such year $7,500,000 (the amount permitted in any year pursuant to this sentence being referred to as the "Base Amount" for such year). The Base Amount for each year shall be increased by an amount equal to the product of $500,000 times the net increase in the number of television stations and Newspapers owned by the Borrower and its Subsidiaries as of the end of such year over the number of television stations and Newspapers owned by the Borrower and its Subsidiaries as of the date of the First Amendment. If the Base Amount for any year exceeds the aggregate amount of Capital Expenditures actually made by the Borrower and its Subsidiaries in such year (such excess being referred to as the "Excess Amount"), then the Borrower and its Subsidiaries may make Capital Expenditures in the immediately succeeding year (but not in any year thereafter) in excess of the Base Amount for

such succeeding year in an amount not to exceed the lesser of $1,000,000 and the Excess Amount for the prior year.

(1) Section 8.9(a) shall be amended by adding a new paragraph (v) at the end thereof which shall read as follows:

(v) The Borrower may, from and after November 21, 1996, make open market purchases of up to 1,000,000 shares in the aggregate of its Class A and Class B Common Stock, so long as no Possible Default or Event of Default exists at the time of making any such purchase or would exist after giving effect thereto and prior to making any such purchase, the Borrower shall have delivered to the Agent a certificate of its chief financial officer in form and substance satisfactory to the Agent which shall contain calculations demonstrating on a pro forma basis the Borrower's compliance with the financial covenants set forth in Section 8 after giving effect to such purchase.

(m) Section 8.13(a) shall be amended in its entirety to read as follows:

(a) Leverage Ratio. The Borrower shall not permit the Leverage Ratio at any time during any period listed in Column A below to be greater than the ratio set forth in Column B below opposite such period:

Column A Period:	Column B Permitted Ratio:
effective date of the First Amendment through March 31, 1998:	6.50:1.0
April 1, 1998, through December 31, 1998:	6.25:1.0
January 1, 1999, through September 30, 1999:	6.00:1.0
October 1, 1999, through June 30, 2000:	5.75:1.0
July 1, 2000, through March 31, 2001:	5.50:1.0
April 1, 2001, through December 31, 2001:	5.25:1.0
January 1, 2002, and thereafter:	5.00:1.0

(n) Section 8.13(c) shall be amended in its entirety to read as follows:

(c) Operating Cash Flow to Interest Expense. The Borrower shall not permit the ratio of Operating Cash Flow for any four fiscal quarter period ending on or prior to September 30, 1998, to Interest Expense for such four quarter period to be less than 1.40 to 1.00; the Borrower shall not permit the ratio of Operating Cash Flow for any four fiscal quarter period ending after September 30, 1998, but on or before September 30, 2000, to Interest Expense for such four quarter period to be less than 1.50 to 1.00; and the Borrower shall not permit the ratio of Operating Cash Flow for any four fiscal quarter period ending after September 30, 2000, to Interest Expense for such four quarter period to be less than 2.00 to 1.00.

(o) Section 8.13(d) shall be amended in its entirety to read as follows:

(d) Pro Forma Debt Service Coverage Ratio. The Borrower shall not permit the ratio of Operating Cash Flow for any four fiscal quarter period ending on or prior to September 30, 1998, to Pro Forma Debt Service as of the end of such four quarter period to be less than 1.10 to 1.00; the Borrower shall not permit the ratio of Operating Cash Flow for any four fiscal quarter period ending after September 30, 1998, but on or prior to September 30, 2001, to Pro Forma Debt Service as of the end of such four quarter period to be less than 1.15 to 1.00; and the Borrower shall not permit the ratio of operating Cash Flow for any four fiscal quarter period ending after September 30, 2001, to Pro Forma Debt Service as of the end of such four quarter period to be less than 1.20 to 1.00.

(p) Section 11.10 shall be amended in its entirety to read as follows:

11.10 Successor Agent.

(a) The Agent may, without the consent of the Borrower or the other Banks, assign its rights and obligations as Agent hereunder and under the Collateral Documents to any wholly owned subsidiary of the Agent which has capital and retained earnings of at least $500,000,000, and upon such assignment, the former Agent shall be deemed to have retired, and such wholly owned subsidiary shall be deemed to be a successor Agent.

(b) The Agent may resign at any time by giving written notice thereof to the Banks. Upon any such resignation, the Majority Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment within thirty days after the notice of resignation, then the

retiring Agent may appoint a successor Agent. Such successor Agent shall be a commercial bank having capital and retained earnings of at least $500,000,000.

(c) Upon the acceptance of any appointment as the Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the assigning or retiring Agent, and the assigning or retiring Agent shall be discharged from its duties and obligations hereunder. After any assigning or retiring Agent's resignation hereunder as the Agent, the provisions of this Section 11 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder.

(q) Section 12.7(d) shall be amended by deleting the reference to "Section 12.12" in the fourth line from the bottom thereof and replacing it with a reference to "Section 12.14."

2. Conditions to Effectiveness. The amendments set forth in Section 1 shall be effective on the date on which all of the following conditions are satisfied:

(a) The Borrower shall have executed and delivered to each Bank an Amended and Restated Reducing Revolving Credit Note and an Amended and Restated Term Note (collectively, the "Amended Notes") in the forms attached hereto as Exhibits A and B.

(b) The Borrower shall have paid all fees and expenses of the Agent and the Banks and payable pursuant to the terms of the Loan Agreement, the Fee Letter, this Amendment or any separate agreement between the Borrower and the Agent.

(c) The Borrower shall have delivered to the Agent a certified copy of resolutions of the Board of Directors of the Borrower evidencing approval of the execution, delivery and performance of this Amendment, the Amended Notes and the other documents and instruments required pursuant hereto.

(d) The Subsidiaries of the Borrower shall have executed the Acknowledgment and Agreement attached hereto.

(e) The Borrower shall have delivered to the Agent such other documents, instruments and opinions as the Agent or any Bank may reasonably request.

3. Representations, Warranties and Events of Default.

(a) Except as amended hereby, the terms, provisions, conditions and agreements of the Original Agreement are hereby ratified and confirmed and shall remain in full force and effect. Each and every representation and warranty of the Borrower set forth in the

Original Agreement (other than those which by their terms are limited to a specific date) is hereby confirmed and ratified in all material respects, and such representations and warranties as so confirmed and ratified shall be deemed to have been made and undertaken as of the date of this Amendment as well as at the time they were made and undertaken.

(b) The Borrower represents and warrants that:

i) No Event of Default or Possible Default now exists or will exist immediately following the execution hereof or after giving effect to the transactions contemplated hereby.

ii) All necessary corporate or stockholder actions on the part of the Borrower and its Subsidiaries to authorize the execution, delivery and performance of this Amendment, the Amended Notes and all other documents or instruments required pursuant hereto or thereto have been taken; this Amendment, the Amended Notes and each such other document or instrument have been duly and validly executed and delivered and are legally valid and binding upon the Borrower and its Subsidiaries and enforceable in accordance with their respective terms, except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency or like laws or by general equitable principles.

iii) The execution, delivery and performance of this Amendment, the Amended Notes and all other documents and instruments required pursuant hereto or thereto, and all actions and transactions contemplated hereby and thereby will not (A) violate, be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under (I) any provision of the Articles of Incorporation or By-Laws of the Borrower or any of its Subsidiaries, (II) any arbitration award or any order of any court or of any other governmental agency or authority, (III) any license, permit or authorization granted to the Borrower or any of its subsidiaries or under which the Borrower or any of its Subsidiaries operates, or (IV) any applicable law, rule, order or regulation, indenture, agreement or other instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries or any of their respective properties is bound and which has not been waived or consented to, or (B) result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever, except as expressly permitted in the Loan Agreement, upon any of the properties of the Borrower or any of its subsidiaries.

iv) No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (including, without limitation, the FCC and any other Licensing Authority) is required to be obtained by the Borrower or any of its Subsidiaries in connection with the execution, delivery or performance of this Amendment, the Amended Notes or any document or instrument required in connection herewith or therewith which has not already been obtained or completed.

4. Affirmation of the Borrower. The Borrower has executed this Amendment to consent to the amendments to the Original Agreement made pursuant hereto and to acknowledge

that the security interests and liens granted by the Borrower to the Agent, for the benefit of the Banks, pursuant to the Borrower Security Agreement, the Borrower Pledge Agreement, the Mortgages and the other Collateral Documents to which the Borrower is a party remain in full force and effect and shall continue to secure all Obligations.

5. Fees and Expenses.

(a) In consideration of the Banks' agreement to the amendments to the Original Agreement contemplated hereby, the Borrower shall pay to the Agent, for the benefit of the Banks, on the effective date of this Amendment an amendment fee in an amount equal to 0.075% of the maximum amount of the Commitments. The Banks shall share in this amendment fee in accordance with their respective Ratable Shares.

(b) As required under the Original Agreement, the Borrower will reimburse the Agent upon demand for all out-of-pocket costs, charges and expenses of the Agent (including reasonable fees and disbursements of special counsel to the Agent) in connection with the preparation, negotiation, execution and delivery of this Amendment and the other agreements or documents relating hereto or required hereby.

6. Counterparts. This Amendment may be executed in as many counterparts as may be convenient and shall become binding when the Borrower, the Agent, the Co-Agent and each Bank have executed at least one counterpart.

7. Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of Ohio, without regard to the conflicts of law provisions thereof.

8. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the Borrower, the Agent, the Co-Agent the Banks and their respective successors and assigns.

9. Reference to Original Agreement. Except as amended hereby, the Original Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. On and after the effectiveness of the amendments to the Original Agreement accomplished hereby, each reference in the original Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import, and each reference to the original Agreement or the original notes evidencing the Loans issued pursuant thereto in any Note or other Collateral Document, or other agreement, document or instrument executed and delivered pursuant to the Original Agreement, shall be deemed a reference to the Original Agreement, as amended hereby, or the Amended Notes, as the case may be.

10. No Other Modifications; Same Indebtedness. The modifications effected by this Amendment and by the other documents and instruments contemplated hereby shall not be deemed to provide for or effect a repayment and re-advance of any of the Loans now

outstanding, it being the intention of the Borrower, the Agent and the Banks that the Loans outstanding under the Original Agreement, as amended by this Amendment, be and are the same Indebtedness as that owing under the Original Agreement immediately prior to the effectiveness hereof.

IN WITNESS WHEREOF, the parties have executed this First Amendment to Loan Agreement as of the date first above written.

BORROWER:

GRAY COMMUNICATIONS SYSTEMS, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Title: Vice President

BANKS:

KEY CORPORATE CAPITAL INC.

By: /s/ Jason R. Weaver
Name: Jason R. Weaver
Title: Vice President

NATIONSBANK, N.A. (SOUTH)

By: /s/ Melinda M. Bergbom
Name: Melinda M. Bergbom
Title: Senior Vice President

CIBC INC.

By: /s/ Harold Birk
Name: Harold Birk
Title: Director, CIBC Wood Gundy
Securities Corp., as Agent

CORESTATES BANK, N.A.

By: /s/ Charles Brinley
Name: Charles Brinley
Title: Commercial Officer

THE BANK OF NEW YORK

By: /s/ Edward Ryan
Name: Edward Ryan
Title: Senior Vice President

AGENT:

KEYBANK NATIONAL ASSOCIATION

By: /s/ Jason R. Weaver
Name: Jason R. Weaver
Title: Vice President

CO-AGENT:

NATIONSBANK, N.A. (SOUTH)

By: /s/ Melinda M. Bergbom
Name: Melinda M. Bergbom
Title: Senior Vice President

GRAY TRANSPORTATION COMPANY, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

PORTA-PHONE PAGING, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

PORTA-PHONE PAGING LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

THE ROCKDALE CITIZEN PUBLISHING COMPANY

By: /s/ Robert A. Beizer
Name: Robert A. Beizer

Its: Secretary

THE SOUTHWEST GEORGIA SHOPPER, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WALB LICENSEE CORP.

By: /s/ Ward L. Quaal
Name: Ward L. Quaal
Its: President

WALB-TV, INC.

By: /s/ Ward L. Quaal
Name: Ward L. Quaal
Its: President

WCTV LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WCTV OPERATING CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WJHG LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WITN LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WITN OPERATING CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WJHG-TV, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WVLT LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WVLT-TV, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WKYT LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WRDW LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WRDW-TV, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

WYMT LICENSEE CORP.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

GULF LINK COMMUNICATIONS, INC.

By: /s/ Robert A. Beizer
Name: Robert A. Beizer
Its: Secretary

EXHIBIT A

AMENDED AND RESTATED REDUCING REVOLVING CREDIT NOTE

$_____________________ September 8, 1997

FOR VALUE RECEIVED, GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Maker"), hereby promises to pay to the order of _______________ (the "Payee"), on or before June 30, 2004, in the manner and at the place provided in the Loan Agreement, as that term is defined below, the principal sum of $___________ or if less, the outstanding balance of the Revolving Loans, as that term is defined in the Loan Agreement described below, made by the Payee.

The unpaid principal balance of this Note shall bear interest prior to maturity at the rates determined in accordance with the provisions of that certain Loan Agreement dated as of September 23, 1996, as amended by the First Amendment to Loan Agreement, dated as of September 8, 1997, among the Maker, KeyBank National Association, as Agent, NationsBank, N.A. (South), as Co-Agent, the Payee and the other financial institutions as may from time to time be parties thereto (as the same may be amended, modified, extended or restated from time to time, the "Loan Agreement"). Interest accrued on each Base Rate Loan shall be paid quarterly in arrears on each Quarterly Date after the date hereof until such Loan is paid in full and on the date such Loan is paid in full, and interest accrued on each LIBOR Loan shall be paid on the last day of the Interest Period thereof and on the date such Loan is paid in full and, in addition, if such Interest Period has a duration of more than three months,, on each day that occurs during such Interest Period that is three, six or nine months from the first day of such Interest Period.

This Note is an amendment and restatement of the Reducing Revolving Credit Note dated September 30, 1996, of the Maker to the Payee (the "Original Note") and not a replacement, substitution or repayment thereof. The indebtedness and liabilities of the Maker under the Original Note evidenced hereby remain in full force and effect as amended, renewed and extended hereby.

This Note is subject to voluntary and mandatory prepayment in whole or in part at the times and in the manner specified in the Loan Agreement.

The Payee may, and is hereby authorized by the Borrower to, set forth on the grid attached hereto, or in other comparable records maintained by it, the amount of each Revolving Loan, all payments and prepayments of principal and interest received, the current outstanding principal balance, and other appropriate information. The aggregate unpaid amount of any Revolving Loan set forth in any records maintained by the Payee with respect to this Note shall be presumptive evidence of the principal amount owing and unpaid on this Note. Failure of the Payee to record the principal amount of any Revolving Loan on the grid attached hereto shall not limit or otherwise affect the obligation of the Borrower hereunder to repay the principal amount of such Revolving Loan and all interest accruing thereon.

This Note evidences indebtedness of the Maker to the Payee arising under the Loan Agreement, to which reference is hereby made for a statement of the rights of the Payee and the duties and obligations of the Maker in relation thereto, but neither this reference to the Loan Agreement nor any provision thereof shall affect or impair the absolute and unconditional obligation of the Maker to pay the principal of and interest on this Note when due.

The principal of and all interest on this Note shall be paid as provided in the Loan Agreement in immediately available funds constituting lawful money of the United States of America, not later than 11:00 A.M. (Cleveland time) on the day when due.

Upon the occurrence of any Event of Default, the entire outstanding principal amount of each Revolving Loan and (to the extent permitted by law) unpaid interest thereon and all other amounts due hereunder shall bear interest, from the date of occurrence of such Event of Default until the earlier of the date such Revolving Loan is paid in full and the date on which such Event of Default is cured or waived in writing, at the Default Interest Rate which shall be payable upon demand.

Subject to the provisions of Section 10 of the Loan Agreement, the entire unpaid principal balance of this Note, together with all interest accrued thereon, shall become immediately due and payable upon the occurrence of an Event of Default. Upon the occurrence of any Event of Default, the holder hereof shall have all of the rights, powers and remedies provided in the Loan Agreement or in any Collateral Document or at law or in equity. Failure of the Payee or any holder of this Note to exercise any such right or remedy available hereunder or under the Loan Agreement or any Collateral Document or at law or in equity shall not constitute a waiver of the right to exercise subsequently such option or such other right or remedy.

The payment of this Note is secured by certain security Agreements, certain Pledge Agreements, the Guaranty, certain Mortgages and collateral assignments of leases and certain other Collateral Documents, all as more fully identified in the Loan Agreement.

To the extent permitted by law, except as otherwise provided herein or in the Loan Agreement, the Maker and each endorser of this Note, and their respective heirs, successors, legal representatives and assigns, hereby severally waive presentment; protest and demand; notice of protest, demand, dishonor and nonpayment; and diligence in collection, and agree to the application of any bank balance as payment or part payment of this Note or as an offset hereto as provided in the Loan Agreement, and further agree that the holder hereof may release all or any part of the collateral given as security for this Note or any rights of the holder thereunder and may amend this-Note (with the consent of the Maker), without notice to, and without in any way affecting the liability of, the Maker or any endorser of this Note, and their respective heirs, successors, legal representatives and assigns.

If at any time the indebtedness evidenced by this Note is collected through legal proceedings or this Note is placed in the hands of attorneys for collection, the Maker and each

endorser of this Note, and their respective heirs, successors, legal representatives and assigns, hereby jointly and severally agree to pay all costs and expenses (including reasonable attorneys, fees if permitted by law) incurred by the holder of this Note in collecting or attempting to collect such indebtedness.

This Note shall be construed and enforced in accordance with and governed by the laws of the State of Ohio, without regard to provisions relating to the conflict of laws.

The rate of interest payable on this Note from time to time shall in no event exceed the maximum rate permissible under applicable law. If the rate of interest payable on this Note is ever reduced as a result of the preceding sentence and at any time thereafter the maximum rate permitted by applicable law shall exceed the rate of interest provided for on this Note, then the rate provided for on this Note shall be increased to the maximum rate permitted by applicable law for such period as is required so that the total amount of interest received by the Payee is that which would have been received by the Payee but for the operation of the preceding sentence.

Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Loan Agreement.

GRAY COMMUNICATIONS SYSTEMS, INC.

By: -----------------------------

Name: --------------------------

Title: -------------------------

REVOLVING CREDIT GRID

DATE	AMOUNT BORROWED	AMOUNT PAID	UNPAID BALANCE	OFFICER'S INITIALS

EXHIBIT B

AMENDED AND RESTATED TERM NOTE

$_______________________ September 8, 1997

FOR VALUE RECEIVED, GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Maker"), hereby promises to pay to the order of _________________ (the "Payee"), on or before June 30, 2004, in the manner and at the place provided in the Loan Agreement, as that term is defined below, the principal sum of $ __________________ or if less, the outstanding balance of the Term Loans, as that term is defined in the Loan Agreement described below, made by the Payee.

The unpaid principal balance of this Note shall bear interest prior to maturity at the rates determined in accordance with the provisions of that certain Loan Agreement dated as of September 23, 1996, as amended by the First Amendment to Loan Agreement, dated as of September 8, 1997, among the Maker, KeyBank National Association, as Agent, NationsBank, N.A. (South), as Co-Agent, the Payee and the other financial institutions as may from time to time be parties thereto (as the same may be amended, modified, extended or restated from time to time, the "Loan Agreement"). Interest accrued on each Base Rate Loan shall be paid quarterly in arrears on each Quarterly Date after the date hereof until such Loan is paid in full and on the date such Loan is paid in full, and interest accrued on each LIBOR Loan shall be paid on the last day of the Interest-Period thereof and on the date such Loan is paid in full and, in addition, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period that is three, six or nine months from the first day of such Interest Period.

This Note is an amendment and restatement of the Term Note dated September 30, 1996, of the Maker to the Payee (the "Original Note") and not a replacement, substitution or repayment thereof. The indebtedness and liabilities of the Maker under the Original Note evidenced hereby remain in full force and effect as amended, renewed and extended hereby.

The indebtedness evidenced hereby shall be a revolving credit from the date hereof until the Conversion Date. On the Conversion Date, the indebtedness evidenced by this Note shall be automatically converted into, and continued and extended as, a four and one-half year term loan in the principal sum of the then outstanding balance of the Maker's revolving credit hereunder. The aggregate principal balance of this Note shall be repaid in nineteen consecutive quarterly installments of principal in the amounts calculated as provided in Section 2.2 of the Loan Agreement, commencing on the Conversion Date, and continuing on each Quarterly Date thereafter, with the final installment of all then outstanding principal, together with all accrued interest, due no later than June 30, 2004.

This Note is subject to voluntary and mandatory prepayment in whole or in part at the times and in the manner specified in the Loan Agreement.

The Payee may, and is hereby authorized by the Borrower to, set forth on the grid attached hereto, or in other comparable records maintained by it, the amount of each Term Loan, all payments and prepayments of principal and interest received, the current outstanding principal balance, and other appropriate information. The aggregate unpaid amount of any Term Loan set forth in any records maintained by the Payee with respect to this Note shall be presumptive evidence of the principal amount owing and unpaid on this Note. Failure of the Payee to record the principal amount of any Term Loan on the grid attached hereto shall not limit or otherwise affect the obligation of the Borrower hereunder to repay the principal amount of such Term Loan and all interest accruing thereon.

This Note evidences indebtedness of the Maker to the Payee arising under the Loan Agreement, to which reference is hereby made for a statement of the rights of the Payee and the duties and obligations of the Maker in relation thereto, but neither this reference to the Loan Agreement nor any provision thereof shall affect or impair the absolute and unconditional obligation of the Maker to pay the principal of and interest on this Note when due.

The principal of and all interest on this Note shall be paid as provided in the Loan Agreement in immediately available funds constituting lawful money of the United States of America, not later than 11:00 A.M. (Cleveland time) on the day when due.

Upon the occurrence of any Event of Default, the entire outstanding principal amount of each Term Loan and (to the extent permitted by law) unpaid interest thereon and all other amounts due hereunder shall bear interest, from the date of occurrence of such Event of Default until the earlier of the date such Term Loan is paid in full and the date on which such Event of Default is cured or waived in writing, at the Default Interest Rate which shall be payable upon demand.

Subject to the provisions of Section 10 of the Loan Agreement, the entire unpaid principal balance of this Note, together with all interest accrued thereon, shall become immediately due and payable upon the occurrence of an Event of Default. Upon the occurrence of any Event of Default, the holder hereof shall have all of the rights, powers and remedies provided in the Loan Agreement or in any Collateral Document or at law or in equity. Failure of the Payee or any holder of this Note to exercise any such right or remedy available hereunder or under the Loan Agreement or any Collateral Document or at law or in equity shall not constitute a waiver of the right to exercise subsequently such option or such other right or remedy.

The payment of this Note is secured by certain Security Agreements, certain Pledge Agreements, the Guaranty, certain Mortgages and collateral assignments of leases and certain other Collateral Documents, all as more fully identified in the Loan Agreement.

To the extent permitted by law, except as otherwise provided herein or in the Loan Agreement, the Maker and each endorser of this Note, and their respective heirs, successors, legal representatives and assigns, hereby severally waive presentment; protest and demand;

notice of protest, demand, dishonor and nonpayment; and diligence in collection, and agree to the application of any bank balance as payment or part payment of this Note or as an offset hereto as provided in the Loan Agreement, and further agree that the holder hereof may release all or any part of the collateral given as security for this Note or any rights of the holder thereunder and may amend this Note (with the consent of the Maker), without notice to, and without in any way affecting the liability of, the Maker or any endorser of this Note, and their respective heirs, successors, legal representatives and assigns.

If at any time the indebtedness evidenced by this Note is collected through legal proceedings or this Note is placed in the hands of attorneys for collection, the Maker and each endorser of this Note, and their respective heirs, successors, legal representatives and assigns, hereby jointly and severally agree to pay all costs and expenses (including reasonable attorneys' fees if permitted by law) incurred by the holder of this Note in collecting or attempting to collect such indebtedness.

This Note shall be construed and enforced in accordance with and governed by the laws of the State of Ohio, without regard to provisions relating to the conflict of laws.

The rate of interest payable on this Note from time to time shall in no event exceed the maximum rate permissible under applicable law. If the rate of interest payable on this Note is ever reduced as a result of the preceding sentence and at any time thereafter the maximum rate permitted by applicable law shall exceed the rate of interest provided for on this Note, then the rate provided for on this Note shall be increased to the maximum rate permitted by applicable law for such period as is required so that the total amount of interest received by the Payee is that which would have been received by the Payee but for the operation of the preceding sentence.

Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Loan Agreement.

GRAY COMMUNICATIONS SYSTEMS, INC.

By: ------------------------------

Name: ----------------------------

Title: ---------------------------

REVOLVING CREDIT GRID

DATE	AMOUNT BORROWED	AMOUNT PAID	UNPAID BALANCE	OFFICER'S INITIALS

==

STOCK PURCHASE AGREEMENT

BY AND AMONG

BUSSE BROADCASTING CORPORATION,

SOUTH STREET CORPORATE RECOVERY FUND I, L.P.,

GREYCLIFF LEVERAGED FUND 1993, L.P.,

SOUTH STREET LEVERAGED CORPORATE RECOVERY FUND, L.P.,

SOUTH STREET CORPORATE RECOVERY FUND I (INTERNATIONAL), L.P.

AND

GRAY COMMUNICATIONS SYSTEMS, INC.

DATED AS OF FEBRUARY 13, 1998

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STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") dated as of the 13th day of February, 1998, is made and entered into by and among BUSSE BROADCASTING CORPORATION, a Delaware corporation (the "Company"), SOUTH STREET CORPORATE RECOVERY FUND I, L.P., GREYCLIFF LEVERAGED FUND 1993, L.P., and SOUTH STREET LEVERAGED CORPORATE RECOVERY FUND, L.P., all of which are Delaware limited partnerships, and SOUTH STREET CORPORATE RECOVERY FUND I (INTERNATIONAL), L.P., a Cayman Islands exempted limited partnership (individually, a "Stockholder" and collectively, the "Stockholders"), and GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation ("Purchaser").

BACKGROUND

The Stockholders collectively own, beneficially and of record, 107,700 shares of the Common Stock of the Company, representing 100% of the outstanding shares of the Common Stock and 65,524.41 shares of the Preferred Stock of the Company, representing 100% of the outstanding shares of the Preferred Stock.

The Company is the parent corporation of WEAU License, Inc. ("WEAU") and of KOLN/KGIN, Inc. ("KOLN/KGIN"). KOLN/KGIN is the parent corporation of KOLN/KGIN License, Inc. ("KOLN/KGIN License" and together with KOLN/KGIN and WEAU, sometimes collectively referred to herein as the "Subsidiaries" or individually as a "Subsidiary"). The Company, directly or indirectly, owns and operates three network-affiliated very high frequency television stations, KOLN-TV, serving Lincoln, Nebraska, KGIN-TV, serving Grand Island, Nebraska and WEAU-TV, serving Eau Claire and LaCrosse, Wisconsin (collectively, the "Stations" and individually, a "Station").

Certain terms used in this Agreement are defined in Article IX hereof.

AGREEMENT

In consideration of the foregoing, the mutual agreements, covenants, representations and warranties contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions hereinafter set forth, the parties hereto agree as follows:

ARTICLE I
SALE OF STOCK

1.01 Purchase of Stock by Purchaser. At the Closing, and subject to the terms and conditions of this Agreement, the Stockholders shall sell, convey, assign, transfer and deliver to Purchaser, and Purchaser shall purchase and accept from the Stockholders, all of the issued and outstanding Common Stock and all of the issued and outstanding Preferred Stock, in each case free and clear of any and all Liens other than those created hereunder or by Purchaser.

1.02 Purchase Price for the Stock. The total purchase price for the Stock shall be equal to (i) One Hundred Twelve Million Dollars ($112,000,000) less (ii) an amount equal to the balance, as of the Closing Date, of (x) the aggregate accreted value of the Company's 11-5/8% Senior Secured Notes due 2000 (issued under that certain Indenture, dated as of October 26, 1995, by and among the Company, certain guarantors and Shawmut Bank Connecticut, National Association) and (y) the outstanding aggregate principal balance of indebtedness for borrowed money (excluding any intercompany indebtedness) that is evidenced by a note, bond, debenture or similar instrument of Busse or its subsidiaries, taken as whole, less (iii) accrued interest on the indebtedness referred to in the foregoing clause (ii), plus (iv) an amount equal to the sum, as of the Closing Date, of all cash, cash equivalents, marketable securities, bank accounts, certificates of deposit and short term investments (other than Accounts Receivable) of the Company and the Subsidiaries, less (v) an amount equal to the net book value (calculated in accordance with GAAP) of the Option Property at the end of the month prior to the transfer of such Option Property by the Company, less (vi) an amount equal to the aggregate unpaid obligations, if any, of the Company to any Person (including without limitation any current or former employee, officer, director, consultant, agent, advisor or representative of the Company) with respect to or on account of any severance agreement, severance plan, severance policy, incentive compensation, bonus arrangement, employment agreement, severance benefit agreement, compensation plan, consulting agreement or personal service contract (including without limitation the Company's Long Term Incentive Plan, the Company's Incentive Fee Plan, the Amended and Restated Employment Agreement with Lawrence A. Busse and the Amended and Restated Employment Agreement with James C. Ryan) other than any such obligation that relates solely to a termination of employment by the Company after the Closing (or any such termination done at the request of Purchaser prior to the Closing) of any employee of, or any consultant or independent contractor to, the Company other than Lawrence A. Busse or James C. Ryan. Each of the foregoing components of the Purchase Price shall be calculated by the Company in a manner reasonably satisfactory to Purchaser and (a) according to GAAP, (b) in a manner consistent with the Company's publicly available financial statements and (c) as of the close of business on the Business Day immediately preceding the Closing Date. At the Closing, Purchaser shall pay the Purchase Price to the Stockholders, against delivery to Purchaser of a certificate or certificates, registered in its name or the name of its designees, representing the Stock. At the Closing, the Purchase Price shall be paid in cash by wire transfers of immediately available funds, or in such other form and manner as may be mutually satisfactory, to an account designated in writing by each of the Stockholders at least three (3) days prior to the Closing. The amount of the Purchase Price due to each Stockholder shall be in the respective percentages set forth on Exhibit 1.02 and all payments shall be in such percentages. Exhibit 1.02 shall be prepared by the Stockholders and delivered to Purchaser no later than sixty (60) days after the date hereof.

1.03 Letter of Credit. Simultaneously with the execution of this Agreement, Purchaser shall deposit with SSP, Inc., on behalf of and for the benefit of the Stockholders, a standby letter of credit in the amount of Five Million Eight Hundred Fifty Thousand Dollars ($5,850,000) (the "LC") to be applied as provided herein. In the event of a termination of this Agreement, the LC will be paid to the Stockholders or Purchaser as provided in Section 8.03 below. At the Closing, the LC shall be returned to Purchaser.

1.04 Closing; Effectiveness of Closing; Deliveries. The Closing shall occur at 10:00 a.m. local time on the Closing Date at the offices of Cadwalader, Wickersham & Taft in New York, New York or at such other time and place as the parties may agree. The Closing shall be effective as of the close of business on the Closing Date. All deliveries, payments and other transactions and documents relating to the Closing (i) shall be interdependent and none shall be effective unless and until all are effective (except to the extent that the party entitled to the benefit thereof has waived satisfaction or performance thereof as a condition precedent to Closing), and (ii) shall be deemed to be consummated in

the order set forth in this Agreement and, to the extent the order is not specified, shall be deemed to be consummated simultaneously.

ARTICLE II
REPRESENTATIONS AND WARRANTIES BY THE STOCKHOLDERS AND THE COMPANY

Each of the Stockholders and the Company, jointly and severally, hereby represent and warrant to Purchaser as follows:

2.01 Title to Stock; Other Rights. Each of the Stockholders is the owner of all right, title and interest (legal and beneficial) in and to that number of shares of Common Stock and shares of Preferred Stock set forth next to its name on Exhibit 2.01, free and clear of all Liens. Collectively, the Stockholders own all right, title and interest (legal and beneficial) in and to all of the issued and outstanding shares of the Stock. Except as specifically contemplated by this Agreement, no Person has any Contract or option or any right or privilege (whether pre-emptive or contractual) capable of becoming a Contract or option for the purchase from the Stockholders of any shares of Common Stock or Preferred Stock or for the purchase, subscription or issuance of any securities of the Company.

2.02 Capacity and Validity. Each of the Stockholders has the full power and authority necessary to enter into and perform its obligations under this Agreement and the Other Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The Company has the full corporate power, capacity and authority necessary to enter into and perform its obligations under this Agreement and the Other Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the Other Agreements have been approved by all necessary action of (i) the Board of Directors and stockholders of the Company and (ii) the partners of each of the Stockholders, including the Board of Directors of each corporate partner. This Agreement has been, and the Other Agreements to which the Company or any of the Stockholders are parties will be when executed and delivered, duly executed and delivered by duly authorized officers of the Company and duly authorized partners or agents of each Stockholder, including duly authorized officers of corporate partners, and the Agreement and each of the Other Agreements constitutes, or will constitute when executed and delivered, the legal, valid and binding obligation of the Company and each of the Stockholders, as the case may be, enforceable against the Company and each of the Stockholders, as the case may be, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or general equitable principles (regardless of whether considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

2.03 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its assets and to carry on its Business as presently conducted. Each of the Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its respective assets and to carry on its respective business as presently conducted. Each of the Stockholders is a limited partnership duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all requisite power and authority to own, operate and lease its respective assets and to conduct its respective business as presently conducted. The Company and each of the Subsidiaries are duly qualified or licensed to transact business as a foreign corporation in good standing

in the jurisdictions listed in Schedule 2.03, and the character of their respective assets or the nature of their respective businesses do not require such qualification or licensing in any other jurisdiction except where the failure to so qualify or be so licensed would not have a Material Adverse Effect on the Company or any such Subsidiary, as the case may be. Complete and correct copies of the Certificate of Incorporation of the Company and each of the Subsidiaries, and all amendments thereto (certified by the Secretary of State of the State of Delaware) and complete and correct copies of the By-Laws of the Company and each of the Subsidiaries, and all amendments thereto, previously have been delivered to Purchaser. Except as may be set forth in Schedule 2.03, copies of all records of the proceedings of incorporators, stockholders and directors of each of the Company and each of the Subsidiaries, which are set forth in the Company's and each of the Subsidiaries' respective minute books (collectively, the "Minute Books"), are correct and complete in all Material respects and accurately reflect in all Material respects all proceedings of each of the Company's and each of the Subsidiaries' respective incorporators, stockholders and Board of Directors and all committees thereof. Except as may be set forth in Schedule 2.03, the stock record books of each of the Company and each of the Subsidiaries (collectively, the "Stock Record Books") are correct and complete and accurately reflect the stock ownership of their respective stockholders. The Minute Books and the Stock Record Books have been made available to Purchaser for review.

2.04 Capitalization. The authorized capital stock of the Company consists of 2,154,000 shares of Common Stock, of which 107,700 are issued and outstanding, and 65,524.41 shares of Preferred Stock, all of which are issued and outstanding. All of such Stock is duly and validly issued and outstanding, is fully paid and nonassessable and was issued pursuant to a valid exemption from registration under the Securities Act of 1933, as amended, and all applicable state securities laws. Except for shares of Common Stock issuable upon conversion of the Preferred Stock, no Stock is reserved for issuance. Except as contemplated by the conversion rights applicable to the Preferred Stock, the Company has no obligation to issue any additional Stock or securities convertible or exchangeable for Stock, or options or warrants for the purchase of (a) any Stock or (b) any securities convertible into or exchangeable for any Stock. Excepted as contemplated by the Registration Rights Agreement, there are no outstanding rights to either demand registration of any Stock under the Securities Act of 1933, as amended, or to sell any Stock in connection with such a registration of Stock.

2.05 No Conflict. Except as disclosed on Schedule 2.05 and assuming compliance with the Hart-Scott Act and the receipt of all necessary FCC approvals, neither the execution, delivery and performance of this Agreement or the Other Agreements to which it is a party by either the Company or any of the Stockholders nor the consummation by the Company or any of the Stockholders of the transactions contemplated hereby or thereby will (i) conflict with or result in a violation, contravention or breach of any of the terms, conditions or provisions of the Certificate of Incorporation, as amended, or the By-Laws, as amended, of the Company or any of the Subsidiaries, (ii) conflict with or result in a violation, contravention or breach of any of the terms, conditions or provisions of the partnership agreement, certificate of limited partnership or other governing document or agreement of any of the Stockholders, (iii) result in a Default under, or require the consent or approval of any party to, any Contract or License of the Company or any of the Subsidiaries required to be set forth on one or more of the Schedules contemplated by Section 2.23 hereof or any Contract or License of any of the Stockholders (which, in the case of the Stockholders, would (a) affect the ability of the Stockholders to consummate the transactions contemplated hereby) or (b) result in any Liability to Purchaser (iv) result in the violation of any Law or Order applicable to the Company, any of the Subsidiaries or any of the Stockholders (which, in the case of the Stockholders, would (a) affect the ability of the Stockholders to consummate the transactions contemplated hereby) or (b) result in any Liability to Purchaser or (v) result in the creation or imposition of any Lien applicable to the Stock, the Company or any of the Subsidiaries, except in each case as would not have a Material Adverse Effect.

2.06 Subsidiaries. Except as set forth on Schedule 2.06 and except for the Subsidiaries, neither the Company nor any of the Subsidiaries has in the past three (3) years had, and none of them currently has, a direct or indirect majority or controlling interest in any entity. Except as disclosed on Schedule 2.06, neither the Company nor any of the Subsidiaries has in the past three (3) years owned and none of them owns, directly or indirectly, more than 1% of any capital stock or other equity, ownership, proprietary or voting interest in any Person. The Company owns, directly or indirectly, 100% of the issued and outstanding capital stock of each of the Subsidiaries. None of the Subsidiaries has any obligation to issue any additional capital stock or other securities or securities convertible or exchangeable for capital stock or other securities, or options or warrants for the purchase of (a) any capital stock or other securities or (b) any securities convertible into or exchangeable for any capital stock or other securities.

2.07 Financial Statements. The Financial Statements (of the type provided for in clauses (i) and (ii) of the definition thereof), correct and complete copies of which are included in Schedule 2.07, (i) are in accordance with the books and records of the Company and each of the Subsidiaries, which are correct and complete in all Material respects and which have been maintained in accordance with good business practices; (ii) present fairly in all Material respects the financial position of the Company and each of the Subsidiaries as of the dates indicated and the results of each of their operations and their respective cash flows for the periods then ended; and (iii) have been prepared in accordance with GAAP, subject, in the case of interim financial statements, to the condensing of the Financial Statements or the absence of footnotes. The Financial Statements contain all adjustments, which are solely of a normal recurring nature, necessary to present fairly in all Material respects the consolidated financial condition and the consolidated results of operations, changes in stockholders' equity and changes in financial position or cash flows of the Company and each of the Subsidiaries as of the dates and for the periods indicated.

2.08 Absence of Undisclosed Liability. Except as set forth in Schedule 2.08, neither the Company nor any of the Subsidiaries has any Undisclosed Liabilities nor does there exist any Known basis for or threat of an assertion against the Company or any of the Subsidiaries, their respective businesses or their respective assets of any Undisclosed Liability, except for Liabilities incurred since the Balance Sheet Date in the ordinary course of business consistent with past practice, none of which are Material.

2.09 Absence of Changes. Except as disclosed on Schedule 2.09, since the Balance Sheet Date, (i) the Business has been carried on only in the ordinary course consistent with past practice, (ii) there has been no Material Adverse Change, and there has been no event or circumstance that reasonably is anticipated to result in a Material Adverse Change with respect to the Company or any of the Subsidiaries, their respective assets or businesses or the Business, (iii) the Company has not directly or indirectly declared, paid or authorized any dividends or other distributions or payments in respect of its Stock or other equity securities, if any, (iv) neither the Company nor any of the Subsidiaries has made any change in any method of accounting or accounting practice, and (v) except in the ordinary course of business consistent with past practice, neither the Company nor any of the Subsidiaries has canceled, modified or waived, without receiving payment or performance in full, any (a) Liability owed to the Company or any of the Subsidiaries, as the case may be, including without limitation, any receivable of the Company from any Affiliate (other than a Subsidiary) or any Related Person to an Affiliate, (b) Litigation the Company or any of the Subsidiaries may have against other Persons, or (c) other rights of the Company or any of the Subsidiaries, as the case may be.

2.10 Tax Matters. Except as set forth on Schedule 2.10:

(a) The Company and each of the Subsidiaries have timely filed with the appropriate Governmental Authorities all required Tax Returns in all jurisdictions in which Tax Returns are required to be filed. Neither the Company nor any of the Subsidiaries is presently the beneficiary of any extension of time within which to file any Tax Return. All Taxes (whether or not shown on any Tax Return) for all periods ending on or before the Balance Sheet Date, have been fully paid or appropriate deposits or adequate accruals have been made therefor on the Balance Sheet.

(b) Since the Balance Sheet Date, neither the Company nor any of the Subsidiaries has incurred any Liability for Taxes other than in the ordinary course of business and no such Tax Liability so incurred (other than any Liability incurred by the Company or the Subsidiaries in connection with their cooperation under Section 4.16 hereof) is Material. Neither the Company nor any of the Subsidiaries is currently delinquent in the payment of any Tax, assessment, deposit or other charge by any Governmental Authority for which any Liability is pending or has been assessed, asserted or threatened (in writing, or otherwise to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders) against the Company, any of the Subsidiaries or any of their respective assets in connection with any Tax and there is no basis for any such Liability. Neither the Company nor any of the Subsidiaries has received any notice of assessment or proposed assessment in connection with any Tax Returns and there are no pending Tax examinations of or Tax claims asserted (in writing, or otherwise to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders) against the Company, any of the Subsidiaries or any of their respective assets, including without limitation, any claim by any Governmental Authority in any jurisdiction where the Company or any of the Subsidiaries did not file Tax Returns that the Company or any of the Subsidiaries, respectively, is or may be subject to or liable for Taxes imposed by that Governmental Authority or jurisdiction. There are no Liens for any Taxes (other than any Lien for current real property or ad valorem Taxes not yet due and payable) on any of the Company's or any of the Subsidiaries' assets.

(c) None of the Company's or any of the Subsidiaries' Tax Returns have ever been audited by the IRS or any other Governmental Authority and the neither the Company nor any of the Subsidiaries has waived any statute of limitations in respect of Taxes or agreed to a Tax assessment or deficiency. Neither the Company nor any of the Subsidiaries has filed any consent under Section 341(f) of the Code relating to collapsible corporations. No Tax is required to be withheld pursuant to Section l445 of the Code as a result of any of the transfers contemplated by this Agreement and the Company and each of the Subsidiaries will provide any certificate reasonably requested by Purchaser at Closing with respect thereto.

(d) The Company and each of the Subsidiaries have withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other Third Party.

(e) Neither the Company nor any of the Subsidiaries is a party to any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code or any similar provision of foreign, state or local Law.

(f) Neither the Company nor any of the Subsidiaries has agreed, nor is it required to make, any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise.

(g) Neither the Company nor any of the Subsidiaries is a party to or bound by (nor will the Company or the Subsidiaries, prior to the Closing, become a party to or be bound by) any Tax indemnity, Tax sharing or Tax allocation agreement or arrangement.

(h) Except for the group of which the Company and the Subsidiaries are presently members, none of the Company or any of the Subsidiaries has been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was the Company) or has any Liability for Taxes of any Person (other than the Company or any of the Subsidiaries) under Treasury Regulation Section 1.1502-6 (or any similar provision of the state, local, or foreign Law), as a transferee or successor, by contract, or otherwise.

(i) Neither the Company nor any of the Subsidiaries is a party to any joint venture, partnership, or other arrangement or Contract which is treated as a partnership for federal income Tax purposes.

(j) Neither the Company nor any of the Subsidiaries has issued or assumed any corporate acquisition indebtedness, within the meaning of Section 279(b) of the Code, or any obligation described in Section 279(a)(2) of the Code.

(k) Neither the Company nor any Subsidiary has any excess loss account (as defined in Treasury Regulation Section 1.1502-19) with respect to the stock of any Subsidiary.

(l) Schedule 2.10 contains Materially complete and accurate descriptions of the following information with respect to the Company and its Subsidiaries (or, in the case of clause (B) below, with respect to each of the Subsidiaries) as of the most recent practicable date: (A) the basis of the Company or the Subsidiary in its assets; (B) the basis of each shareholder in each Subsidiary's stock; and (C) the amount of any deferred gain or loss allocable to the Company or Subsidiary arising out of any deferred intercompany transaction.

(m) The net operating loss and other carryovers reported by the Company and each of the Subsidiaries as of the Balance Sheet Date are as set forth in Schedule 2.10; as of the Closing Date and immediately prior to the consummation of any of the transactions contemplated hereby the ability of the Company and each of the Subsidiaries to use such reported carryovers will not have been affected by Sections 382, 383 or 384 of the Code or by the SRLY or CRCO limitations of Treasury Regulation Sections 1.1502-21 or 1.1502-22. Except as set forth in this clause (m) and notwithstanding anything in this Agreement to the contrary, the Stockholders and the Company make no representation or warranty as to the extent, availability or use of the net operating loss and other carryover items reported by the Company and its Subsidiaries.

2.11 Title to Assets; Encumbrances; Condition.

(a) Each of the Company and each of the Subsidiaries has good, valid and marketable (and, in the case of the Owned Real Property, insurable) title to all of its respective assets free and clear of any and all Liens, except Permitted Liens. Schedule 2.11 contains true and complete copies (in all Material respects) of (i) Commitments to issue owner's title insurance policies for all of the Owned Real Property in the amounts indicated in each such Commitment, except for the Owned Real Property located in York County, Nebraska, a copy of which will be delivered to Purchaser prior to Closing, and (ii) all

existing owner's title insurance policies. A survey of each parcel of the Owned Real Property has been delivered to Purchaser prior to the date hereof, except for the Owned Real Property located in York County, Nebraska, a copy of which will be delivered to Purchaser prior to Closing. Copies of all documents evidencing the Liens upon the Company's and each of the Subsidiaries' respective assets are either contained in Schedule 2.11 or previously have been delivered to Purchaser.

(b) Except as set forth in Schedule 2.11, each of the Material Improvements and each item of Material Personal Property is in good condition and repair, reasonable wear and tear excepted, and is usable in the ordinary course of business consistent with past practices. Each Material Improvement and each item of Material Personal Property is adequate for its present and intended uses and operation and neither the Company nor any of the Subsidiaries has any intention to use or operate any Material Improvement or any item of Material Personal Property other than as presently used or operated. The Company's and each of the Subsidiaries' respective assets (including the Company's and each of the Subsidiaries' respective interest in all leased assets) include all Material assets required to operate the Business as presently conducted.

2.12 Real Property.

(a) Schedule 2.12 contains a correct and complete list of all of the Real Property, including, without limitation, a legal description for all of the Owned Real Property. To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, no facts or circumstances exist which do, or potentially may, adversely affect any of the access to and from the Real Property, from and to the existing public highways and roads, and, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, there is no pending or threatened denial, revocation, modification or restriction of such access. The primary tower, transmitter and Real Property on which such tower and transmitter are located are all owned by the Company or one of the Subsidiaries in fee simple title, except for the 2000 foot television tower located on a permanent easement which is located in Eau Claire County (Fairchild Township), Wisconsin.

(b) The Real Property is served by utilities as required for its current operation.

(c) No zoning or similar land use restrictions are presently in effect or proposed by any Governmental Authority that would impair in any Material respect the operation of the Business as presently conducted by the Company and each of the Subsidiaries or which would prevent the use of any of the Real Property as currently operated. All of the Real Property is in compliance in all Material aspects with all applicable zoning laws and recorded covenants. Neither the Company nor any of the Subsidiaries has received any notice from any Governmental Authority or other Third Party with regard to encroachments on or off the Real Property, violations of building codes, zoning, subdivision or other similar Laws or other material defects in the Improvements or in the good, valid, marketable and insurable title of said Real Property.

(d) As of the Closing Date, there will be no Persons in possession of the Real Property or any part thereof other than the Company or one or more of the Subsidiaries or their lessees pursuant to Contracts that are Permitted Liens.

(e) No condemnation proceedings are pending or to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, threatened with regard to the Owned Real Property.

(f) With respect to each parcel of Leased Real Property, (i) the lessor was the owner of the premises leased to the lessee at the time of the execution and delivery of the lease, (ii) the Company is the owner and holder of the interest of the lessee in the lease, (iii) all buildings and towers constructed by the lessee of each lease are located within the boundaries of the leased premises, (iv) each lease contains an adequate description of the leased premises, (v) each lease is enforceable by the lessee, (vi) all payments of rent are current under each lease and no default exists under any lease and (vii) except as set forth on Schedule 2.21, there are no disputes with or adverse claims asserted by any lessor of a lease. Each of the Contracts of the Company or any of the Subsidiaries relating to such Leased Real Property is fully and accurately identified, and the expiration date and current rent are described, in Schedule 2.23(a)(i) and each such Contract is in full force and effect. Except as disclosed on Schedule 2.12, neither the Leased Real Property nor any of the Company's or any of the Subsidiaries' right, title or interest therein is affected by any Lien, prior interests or superior interests of any nature whatsoever that will, or could reasonably be expected to, terminate or otherwise adversely affect such Leased Real Property or any of the Company's or any of the Subsidiaries' right, title and interest therein.

2.13 Personal Property.

(a) Schedule 2.13 contains a correct and complete list of each item of Personal Property, other than Inventory and the Option Property (excluding office furniture, equipment, supplies and miscellaneous items of personal property with an individual cost of less than $2,500).

(b) Schedule 2.13 contains a correct and complete description of all Material Leased Personal Property. Each of the Contracts of the Company or any of the Subsidiaries relating to such Leased Personal Property is identified on Schedule 2.13 and each such Contract is in full force and effect.

2.14 Intellectual Property.

(a) Schedule 2.14 contains a correct and complete list of all of the Company's and each of the Subsidiaries' respective Material Intellectual Property, including all Material license agreements relating thereto. Neither the Company nor any of the Subsidiaries (or any goods or services sold by any of them) has violated, infringed upon or unlawfully or wrongfully used the Intellectual Property of others and none of the Company's or any of the Subsidiaries' Intellectual Property or any related rights or any customer lists, supplier lists or mailing lists, as used in the Business or in the other businesses now or heretofore conducted by the Company or any of the Subsidiaries, Materially infringes upon or otherwise Materially violates the rights of others, nor has any Person asserted a claim of such infringement or misuse, which infringement or violation is likely to result in a cost to the Company in excess of $20,000. Each of the Company and the Subsidiaries has taken all reasonable measures to enforce, maintain and protect its interests and, to the extent applicable, the rights of Third Parties, in and to the Company's and each of the Subsidiaries' Material Intellectual Property. The Company and each of the Subsidiaries have all right, title and interest in the Intellectual Property identified on Schedule 2.14. The consummation of the transactions contemplated by this Agreement will not alter or impair any Material Intellectual Property rights of the Company or any of the Subsidiaries. Except as set forth in Schedule 2.14, neither the Company nor any of the Subsidiaries is obligated nor has the Company or any of the Subsidiaries incurred any Liability to make any Material payments for royalties, fees or otherwise to any Person in connection with any of the Company's or any of the Subsidiaries' Intellectual Property. All patents, trademarks, trade names, service marks, assumed names, and copyrights and all registrations thereof included in or related to the Company's or any of the Subsidiaries' Intellectual Property are valid, subsisting and in full force and effect. The Company is unaware of any Material infringement of the Company's or any of the Subsidiaries' Material

Intellectual Property, and there are no pending infringement actions against another for infringement of the Company's or any of the Subsidiaries' Intellectual Property or theft of the Company's trade secrets.

(b) No present or former officer, director, partner or employee of the Company or any of the Subsidiaries owns or has any proprietary, financial or other interest, direct or indirect, in any of the Company's or any of the Subsidiaries' Material Intellectual Property, except as described on Schedule 2.14. Except as set forth on Schedule 2.14, no officer, director, partner or employee of the Company or any of the Subsidiaries has entered into any Contract (i) that requires such officer, director, partner or employee to (A) assign any interest to inventions or other Material Intellectual Property, or (B) keep confidential any Material trade secrets, proprietary data, customer lists or other business information or (ii) that restricts or prohibits such officer, director, partner or employee from engaging in competitive activities with or soliciting customers to or from any competitor of the Company or any of the Subsidiaries.

2.15 Computer Software and Databases. Schedule 2.15 identifies all Material Computer Software and Databases owned, licensed, leased, internally developed or otherwise used in connection with the Business. The Company and each of the Subsidiaries have use of or the ability to freely acquire, without substantial costs to the Company or any of the Subsidiaries for such acquisition, all Computer Software and Databases that are necessary to conduct the Business as presently conducted by the Company and each of the Subsidiaries and all documentation relating to all such Material Computer Software and Databases. Such Computer Software and Databases perform in all Material respects in accordance with the documentation related thereto or used in connection therewith and are free of Material defects in programming and operation. The Company has previously delivered to Purchaser complete and accurate copies of all documents relating to the sale, license, lease or other transfer or grant of Material Computer Software and Databases by the Company or any of its Subsidiaries since January 1, 1996.

2.16 Accounts Receivable. The Accounts Receivable are (i) validly existing, (ii) enforceable by the Company or the Subsidiaries in accordance with the terms of the instruments or documents creating them, and (iii) collectible in the ordinary course of business consistent with past practice at the full recorded amount thereof less an allowance for collection losses disclosed in the Balance Sheet, or in the case of Accounts Receivable arising after the Balance Sheet Date, an allowance for collection losses accrued on the books of the Company or any of the Subsidiaries in the ordinary course of business consistent with past practices and in accordance with GAAP. The allowance for collection losses on the Balance Sheet was established in the ordinary course of business consistent with past practices and in accordance with GAAP. The Accounts Receivable represent monies due for, and have arisen solely out of, bona fide sales and deliveries of goods, performance of services and other business transactions in the ordinary course of business consistent with past practices. None of the Accounts Receivable represent monies due for goods either sold on consignment or sold on approval. There are no refunds, discounts or other adjustments payable with respect to any such Accounts Receivable, and there are no defenses, rights of set-off, counterclaims, assignments, restrictions, encumbrances, or conditions enforceable by Third Parties on or affecting any Account Receivable, except, in each case, for terms arising in the ordinary course of business consistent with past practice.

2.17 Insurance. All of the assets and the operations of the Company, each of the Subsidiaries and the Business of an insurable nature and of a character usually insured by companies of similar size and in similar businesses are insured by the Company or any of the Subsidiaries in such amounts and against such losses, casualties or risks as is (i) usual in such companies and for such assets, operations and businesses, (ii) required by any Law applicable to the Company, any of the Subsidiaries or the Business, or (iii) required by any Contract of the Company or any of the Subsidiaries. Schedule 2.17

contains a complete and accurate list of all Material insurance policies now in force and held or owned by the Company or any of the Subsidiaries and such Schedule indicates the name of the insurer, the type of policy, the risks covered thereby, the amount of the premiums, the term of each policy, the policy number and the amounts of coverage and deductible in each case and all outstanding claims thereunder. Correct and complete copies or summaries of all such policies have been delivered to Purchaser by the Company or will be delivered to Purchaser by the Company as soon as such policies are available to the Company after the date hereof. All such policies are in full force and effect and enforceable in accordance with their terms. Neither the Company nor any of the Subsidiaries is now in Material Default regarding the provisions of any such policy, including, without limitation, failure to make timely payment of any premiums due thereon, and neither the Company nor any of the Subsidiaries has failed to give any Material notice or present any Material claim thereunder in due and timely fashion. Neither the Company nor any of the Subsidiaries has been refused or denied renewal of, any Material insurance coverage in connection with the Company, any of the Subsidiaries, the ownership or use of the Company's or any of the Subsidiaries' respective assets or the operation of the Business. In addition to the deductibles set forth on Schedule 2.17, such Schedule discloses all Material risks that are self-insured by the Company and each of the Subsidiaries that in the ordinary course of business could be insured.

2.18 Bonds, Letters of Credit and Guarantees. Schedule 2.18 contains a complete and accurate list of all bonds (whether denominated bid, litigation, performance, fidelity, or otherwise), letters of credit, and guarantees (other than instruments that are guaranteed in the ordinary course) issued by the Company, any of the Subsidiaries, the Stockholders or others for the benefit of the Company or any of the Subsidiaries and now in force or outstanding. Correct and complete copies of each such Material bond, letter of credit and guarantee have been delivered to Purchaser by the Company on or before the date of this Agreement. The bonds, letters of credit and guarantees listed in Schedule 2.18 satisfy all Material requirements for bonds, letters of credit or guarantees set forth in (i) any Law applicable to the Company, any of the Subsidiaries or the Business and (ii) any Contracts of the Company or any of the Subsidiaries. All such bonds, letters of credit and guarantees are in full force and effect and enforceable in accordance with their terms. Neither the Company nor any of the Subsidiaries is in Material Default regarding the provisions of any such bond, letter of credit or guarantee, including, without limitation, the failure to make timely payment of all premiums and fees due thereon, and neither the Company nor any of the Subsidiaries has failed to give any notice or present any claim thereunder in due and timely fashion.

2.19 Compliance with Law.

(a) The Company and each of the Subsidiaries have complied with and are in compliance with all Laws, Licenses and Orders applicable to, required of or binding on the Company or any of the Subsidiaries, respectively, their respective assets or the Business, including without limitation, the FCC Licenses, the Communications Act of 1934, and PUC Laws, and none of the Company, any of the Subsidiaries, or any of the Stockholders has Knowledge of any basis for any claim of current or past non-compliance with any such Law, License or Order, in each case where such non-compliance would be Material to the business, operations, assets, Liabilities, financial condition, or results of operations of the Company and the Subsidiaries, taken as a whole, including, without limitation, the value of the Company and the Subsidiaries, taken as a whole. No notices from any Governmental Authority with respect to any failure or alleged failure of the Company, any of the Subsidiaries, their respective assets or the Business to comply with any such Law, License or Order have been received by the Company, any of the Subsidiaries or any of the Stockholders, nor, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, are any such notices proposed or threatened. Schedule 2.19 contains a complete and correct list of all Material Licenses and Orders applicable to, required of or binding on the Company, any of the

Subsidiaries, their respective assets or the Business, true and complete copies of which (other than the FCC Licenses) previously have been delivered to the Purchaser.

(b) The Company and each of the Subsidiaries hold the FCC Licenses and all other Material Licenses necessary for or used in the operations of the Business, and each of the FCC Licenses is, and all such other Material Licenses are, in full force and effect. Schedule 2.19 contains a true and complete list of the FCC Licenses currently in effect and all such other Material Licenses (showing, in each case, the expiration date). Except as set forth on Schedule 2.19, no application, action or proceeding is pending for the renewal or modification of any of the FCC Licenses or any of such other Material Licenses, and no application, action or proceeding is pending or, to the Company's, any of the Subsidiaries' or any of the Stockholder's Knowledge, threatened that may result in the denial of the application for renewal, the revocation, modification, nonrenewal or suspension of any of the FCC Licenses or any of such other Material Licenses, the issuance of a cease-and-desist order, or the imposition of any administrative or judicial sanction with respect to the Business that may Materially and adversely affect the rights of Purchaser, the Company or any of the Subsidiaries under any such FCC Licenses or other Material Licenses. All Material returns, reports and statements required to be filed by the Company or any of the Subsidiaries with the FCC relating to the Business have been filed and complied with and are complete and correct in all Material respects as filed.

(c) Except as described in Schedule 2.19, there are no Material capital expenditures that the Company, any of the Subsidiaries or any of the Stockholders anticipates will be required to be made in connection with the Company's or any of the Subsidiaries' respective assets or the Business as now conducted in order to comply with any Law applicable to the Company, any of the Subsidiaries, their respective assets or the Business as now conducted.

2.20 Environmental. Except as set forth in Schedule 2.20 or the Environmental Report:

(a) There is no Environmental Litigation (or any Litigation against any Person whose Liability, or any portion thereof, for Environmental Matters or under any Environmental Laws the Company or any of the Subsidiaries has or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, may have retained or assumed contractually or by operation of Law) pending or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, threatened with respect to (i) the ownership, use, condition or operation of the Business, the Real Property or any other asset of the Company or any of the Subsidiaries or any asset formerly held for use or sale by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries, or (ii) any violation or alleged violation of or Liability or alleged Liability under any Environmental Law or any Order related to Environmental Matters. To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, there have been and there are no existing violations of (i) any Environmental Law, or (ii) any Order related to Environmental Matters, with respect to the ownership, use, condition or operation of the Business, the Real Property or any other asset of the Company or any of the Subsidiaries or any asset formerly held for use or sale by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries. To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, there are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, any Environmental Matter, that could reasonably be expected to form the basis of (i) any Environmental Litigation against the Company or any of the Subsidiaries, or (ii) any Litigation against any Person whose Liability (or any portion thereof) for Environmental Matters or under any Environmental Laws the Company or any of the Subsidiaries has or may have retained or assumed contractually or by operation of Law. To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders,

none of the Company, any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries nor anyone Known to the Company, any of the Subsidiaries or any of the Stockholders has used any assets or premises of the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries or any part thereof for the handling, treatment, storage, or disposal of any Hazardous Substances except in Material compliance with applicable Environmental Laws. The disclosure of facts set forth in Schedule 2.20 shall not relieve the Company, any of the Subsidiaries or any of the Stockholders of any of their respective obligations under this Agreement.

(b) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, no release, discharge, spillage or disposal of any Hazardous Substances has occurred or is occurring at any assets owned, leased, operated or managed by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries or any part thereof while or before such assets were owned, leased, operated or managed by the Compan or any of the Subsidiaries.

(c) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, no soil or water in, under or adjacent to any assets owned, leased, operated or managed, directly or indirectly, by the Company or any of the Subsidiaries or assets formerly held for use or sale by the Company or any of the Subsidiaries or, in either case, any of their respective predecessors or any of their respective current or former subsidiaries has been contaminated by any Hazardous Substance while or before such assets were owned, leased, operated or managed by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries.

(d) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, all waste containing any Hazardous Substances generated, used, handled, stored, treated or disposed of (directly or indirectly) by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries has been released or disposed of in compliance with all applicable reporting requirements under any Environmental Laws and there is no Environmental Litigation with respect to any such release or disposal.

(e) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, all underground tanks and other underground storage facilities presently or previously located at any Real Property owned, leased, operated or managed by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries or any such tanks or facilities located at any Real Property while such Real Property was owned, leased, operated, or managed by the Company or any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries are listed together with the capacity and contents (former and current) of each such tank or facility in Schedule 2.20. To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, none of such underground tanks or facilities is leaking or has ever leaked, and none of the Company, any of the Subsidiaries or any of their respective current or former subsidiaries holds any responsibility or Liability for any underground tanks or underground facilities at any other location.

(f) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, all hazardous waste has been removed from all Real Property of the Company and each of the Subsidiaries and each of their respective predecessors and each of their respective current and former subsidiaries in Material compliance with applicable Environmental Laws.

(g) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, the Company, each of the Subsidiaries and each of their respective predecessors or any of their respective current or former subsidiaries has complied with all applicable reporting requirements under all Environmental Laws concerning the disposal or release of Hazardous Substances and none of the Company, any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries has made any such reports concerning any Real Property of the Company or any of the Subsidiaries or concerning the operations or activities of the Company, any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries.

(h) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, no building or other Improvement or any Real Property owned, leased, operated or managed by the Company or any of the Subsidiaries contains any asbestos-containing materials.

(i) To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, without limiting the generality of any of the foregoing, (i) all on-site and off-site locations where the Company, any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries has disposed or arranged for the disposal of Hazardous Substances are identified in Schedule 2.20, (ii) none of the on-site or off-site locations identified in Schedule 2.20 is listed on any federal, state or local government lists of abandoned disposal sites or sites where Hazardous Substances have or may have occurred, and (iii) no polychlorinated biphenyls ("PCB's") are used or stored on or in any real property owned, leased, operated or managed by the Company, any of the subsidiaries or any of their respective predecessors or any of their respective current or former Subsidiaries, except in Material compliance with applicable Environmental Laws.

(j) Schedule 2.20 contains a correct and complete list of all environmental site assessments and other studies relating to the investigation of the possibility of the presence or existence of any Environmental Matter with respect to the Company, any of the Subsidiaries, the Business, any assets owned, leased, operated or managed by the Company, any of the Subsidiaries or any of their respective predecessors or any of their respective current or former subsidiaries, and the Company has previously delivered to Purchaser a correct and complete copy of each such assessment and study.

2.21 LITIGATION AND CLAIMS. Except as disclosed on Schedule 2.21:

(a) There is no Litigation pending or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, threatened and none of the Company, any of the Subsidiaries or any of the Stockholders has any Knowledge of any basis for any such Litigation or any facts or the occurrence of any event which might give rise to any Litigation;

(b) No Litigation has been pending during the three (3) years prior to the date hereof that, individually or in the aggregate resulted in an uninsured Loss in excess of $150,000 or granted any injunctive relief against the Company or any of the Subsidiaries.

(c) Except as disclosed on Schedule 2.21, neither the Company nor any of the Subsidiaries has been advised by any attorney representing it that there are any "loss contingencies" (as defined in Statement of Financial Accounting Standards No. 5 issued by the Financial Accounting Standards Board in March 1975 ("FASB 5"), which would be required by FASB 5 to be disclosed or accrued in financial statements of the Company or any of the Subsidiaries, were such financial statements prepared as of the date hereof.

2.22 BENEFIT PLANS.

(a) Schedule 2.22 lists every Employee Benefit Plan of the Company and each of the Subsidiaries. On or after September 26, 1980, none of the Company, any of the Subsidiaries or any entity aggregated with the Company or any of the Subsidiaries under Code Section 414 (for purposes of this Section, an "ERISA Affiliate") has had an "obligation to contribute" (as defined in ERISA Section 4212) to a "multiemployer plan" (as defined in ERISA Sections 4001(a)(3) and (3)(37)(A)). No Employee Benefit Plan is or has been a multiemployer plan within the meaning of Section 3(37) of ERISA.

(b) The Employee Benefit Plans listed on Schedule 2.22 have been or will be made available to Purchaser for review, including correct and complete copies of: (i) all trust agreements or other funding arrangements for such Employee Benefit Plans (including insurance contracts), and all amendments thereto, (ii) with respect to any such Employee Benefit Plans or amendments, all determination letters, rulings, opinion letters, information letters, or advisory opinions issued by the United States Internal Revenue Service, the United States Department of Labor, or the Pension Benefit Guaranty Corporation after December 31, 1974, (iii) annual reports or returns, audited or unaudited Financial Statements, actuarial valuations and reports, and summary annual reports prepared for any Employee Benefit Plan with respect to the most recent three plan years, and (iv) the most recent summary plan descriptions and any material modifications thereto.

(c) Except as disclosed in Schedule 2.22, all the Employee Benefit Plans and the related trusts subject to ERISA comply in all Material respects with and have been administered in compliance in all Materials respects with, (i) the applicable provisions of ERISA, (ii) all applicable provisions of the Code relating to qualification and Tax exemption under Code Sections 401(a) and 501(a) or otherwise applicable to secure intended Tax consequences, (iii) all applicable state or federal securities Laws, and (iv) all other applicable Laws and collective bargaining agreements, and neither the Company nor any of the Subsidiaries has received any notice from any Governmental Authority questioning or challenging such compliance. All available determination letters and required registrations under federal and state securities Laws ("Permits") for the Employee Benefit Plans have been obtained, including, but not limited to, timely determination letters on the qualification of the ERISA Plans and Tax exemption of related trusts, as applicable under the Code, and all such Permits continue in full force and effect. No event has occurred which will or could reasonably be expected to give rise to disqualification of any such plan or loss of intended Tax consequences under the Code or to any Tax under Section 511 of the Code.

(d) Except as disclosed in Schedule 2.22, no oral or written representation or communication with respect to any aspect of the Employee Benefit Plans has been made to employees of the Company or any of the Subsidiaries prior to the date hereof that is not in accordance with the written or otherwise preexisting terms and provisions of such plans. None of the Company, any of the Subsidiaries or any administrator or fiduciary of any Employee Benefit Plan (or any agent of any of the foregoing) has engaged in any transaction, or acted or failed to act in any manner that could subject the Company, any of the Subsidiaries or Purchaser to any direct or indirect Material Liability (by indemnity or otherwise) for breach of any fiduciary, co-fiduciary or other duty under ERISA. There are no unresolved claims or disputes under the terms of, or in connection with, the Employee Benefit Plans other than claims for benefits which are payable in the ordinary course and no Litigation has been commenced with respect to any Employee Benefit Plan.

(e) Except as disclosed in Schedule 2.22, all Employee Benefit Plan documents and annual reports or returns, audited or unaudited financial statements, actuarial valuations, summary annual reports, and summary plan descriptions issued with respect to the Employee Benefit Plans are

correct and complete in all Material respects, have been timely filed with the IRS and the United States Department of Labor, have been timely distributed to participants in the Employee Benefit Plans, and there have been no changes in the information set forth therein.

(f) No "party in interest" (as defined in Section 3(14) of ERISA) or "disqualified person" (as defined in Code Section 4975) of any Employee Benefit Plan has engaged in any Material nonexempt "prohibited transaction" (described in Code Section 4975 or ERISA Section 406). Except as disclosed in Schedule 2.22, there has been no (i) "reportable event" (as defined in Section 4043 of ERISA), or event described in Sections 4041, 4042, 4062 (including ERISA Section 4062(e)), 4064, 4069 or 4063 of ERISA, or (ii) termination or partial termination, withdrawal or partial withdrawal with respect to any of the ERISA Plans which the Company or any of the Subsidiaries maintains or contributes to or has maintained or contributed to. Except as disclosed in Schedule 2.22, neither the Company nor any of the Subsidiaries has incurred any liability under Title IV of ERISA, including any Liability that could arise under Title IV of ERISA as a result of the Company's or any of the Subsidiaries' membership in a "controlled group" as defined in ERISA ss.ss.4001(a)(14) and 4001(b)(1).

(g) Except as disclosed in Schedule 2.22, for any ERISA Plan that is an employee pension benefit plan as defined in ERISA ss.3(2) ("ERISA Pension Plan"), the fair market value of such Plan's assets equals or exceeds the present value of all benefits (whether vested or not) accrued to date by all present or former participants in such ERISA Pension Plan. For this purpose the assumptions prescribed by the Pension Benefit Guaranty Corporation for valuing plan assets or liabilities upon plan termination shall be applied and the term "benefits" shall include the value of all benefits, rights and features protected under Code ss. 411(d)(6) or its successors and any ancillary benefits (including disability, shutdown, early retirement and welfare benefits) provided under any such employee pension benefit plan and all "benefit liabilities" as defined in ERISA Section 4001(a)(16). Since the date of the most recent actuarial valuation, there has been (i) no Material change in th financial position of an ERISA Pension Plan, (ii) no change in the actuarial assumptions with respect to any ERISA Pension Plan, and (iii) no increase in benefits under any ERISA Pension Plan as a result of ERISA Pension Plan amendments or changes in any applicable regulation which is reasonably likely to have, individually or in the aggregate, a Material effect on the funding status of such ERISA Pension Plan. All contributions with respect to an Employee Benefit Plan of the Company or of an ERISA Affiliate that is subject to Code Section 412 or ERISA Section 302 have been, or will be, timely made and there is no Lien or expected to be a Lien under Code Section 412(n) or ERISA Section 302(f) or Tax under Code Section 4971. No ERISA Pension Plan of the Company or any of the Subsidiaries or of an ERISA Affiliate has a "liquidity shortfall" as defined in Code Section 412(m)(5). No event described in Code Section 401(a)(29) has occurred or can reasonably be expected to occur with respect to the Company or its ERISA Affiliates. All premiums required to be paid under ERISA Section 4006 have been paid by the Company and each of the Subsidiaries and by any Person aggregated with the Company or any of the Subsidiaries under ERISA Sections 4001(a)(14) and 4001(b)(1).

(h) Neither the Company nor any of the Subsidiaries has, or maintains, an Employee Benefit Plan providing welfare benefits (as defined in ERISA Section 3(1)) to employees after retirement or other separation of service except to the extent required under Part 6 of Title I of ERISA or Code Section 4980B or their successors. No Material Tax under Code Sections 4980B or 5000 has been incurred with respect to any Employee Benefit Plan and no circumstances exist which could reasonably be expected to give rise to such Taxes.

(i) Except as disclosed on Schedule 2.22, neither the execution or delivery of this Agreement or the Other Agreements nor the consummation of the transactions contemplated by this

Agreement will (1) entitle any current or former employee of the Company or any of the Subsidiaries to severance pay, unemployment compensation or any payment contingent upon a change in control or ownership of the Company or any of the Subsidiaries, or (2) accelerate the time of payment or vesting, or increase the amount, of any compensation due to any such employee or former employee.

(j) Except as disclosed on Schedule 2.22, all individuals participating in (or eligible to participate in) any Employee Benefit Plan maintained (or contributed to) by the Company or any of the Subsidiaries are common-law employees.

2.23 CONTRACTS.

(a) Description.

(i) Real Property. Schedule 2.23(a)(i) is a list or brief description of all Material Contracts affecting or relating to the Real Property, including, without limitation, Contracts evidencing Material Liens (including those referred to in Schedule 2.11).

(ii) Personal Property. Schedule 2.23(a)(ii) is a list of all Contracts affecting or relating to the Personal Property, including, without limitation, Contracts evidencing Liens (including those referred to in Schedule 2.11) (other than Contracts affecting rights in the Personal Property each of which does not involve the payment by the Company or any of the Subsidiaries of more than $25,000 per year).

(iii) Purchase Orders -- Non-Capital Assets. Schedule 2.23(a)(iii) is a list of all outstanding Contracts of the Company or any of the Subsidiaries or that relate to the Business, for the acquisition or sale of goods, assets or services (other than purchase orders or other commitments for the acquisition of capital assets), all of which were executed in the ordinary course of business consistent with past practice of the Company or any of the Subsidiaries (other than purchase orders and other commitments which do not exceed $25,000 each).

(iv) Purchase Orders -- Capital Assets. Schedule 2.23(a)(iv) is a list of all outstanding Contracts of the Company or any of the Subsidiaries or that relate to the Business, for the acquisition of capital assets and that were executed in the ordinary course of business consistent with past practice of the Company or any of the Subsidiaries (other than purchase orders and other commitments which do not exceed $25,000 each).

(v) Sales. Schedule 2.23(a)(v) is a list or brief description of all Contracts of the Company or any of the Subsidiaries or that relate to the Business, for the sale of products or the performance of services by the Company or any of the Subsidiaries and which exceed $5,000 each.

(vi) Employment; Other Affiliate Contracts. Schedule 2.23(a)(vi) contains a list of all Material Contracts of the Company or any of the Subsidiaries or that relate to the Business, with any employee, officer, agent, consultant, distributor, dealer or Affiliate of the Company or any of the Subsidiaries (other than those entered into in the ordinary course of business consistent with past practice that are immediately terminable at will by the Company or any of the Subsidiaries, as the case may be, without any Liability).

(vii) Sales Representatives. Schedule 2.23(a)(vii) is a list of all Material Contracts of the Company or any of the Subsidiaries or that relate to the Business, with any agent, broker,

sales representative of, or any Person in a similar representative capacity for, the Company or any of the Subsidiaries (other than those entered into in the ordinary course of business consistent with past practice that are terminable within sixty (60) days by the Company or any of the Subsidiaries, as the case may be, without Liability).

(viii) Powers of Attorney. Schedule 2.23(a)(viii) is a list of all powers of attorney given by the Company or any of the Subsidiaries, whether limited or general, to any Person continuing in effect.

(ix) Programming, Network Affiliation, Operating and Cable Retransmission Agreements. Schedule 2.23(a)(ix) is a list of all network affiliation agreements, operating agreements, cable retransmission agreements and all programming agreements of the Company or that relate to the Business (correct and complete copies of which previously have been delivered to Purchaser), including for each of those agreements the amounts and availability dates of programming and the dollar amount and schedule of payments thereunder.

(x) Barter and Trade Agreements. Schedule 2.23(a)(x) is a list of all "barter" and "trade" agreements of the Company or any of the Subsidiaries or that relate to the Business (correct and complete copies of which previously have been delivered to Purchaser) and includes an estimate of the positive or negative trade balances associated with each such agreement.

(xi) Any Other Contracts. Schedule 2.23(a)(xi) is a list or brief description of any other Contracts of the Company or any of the Subsidiaries or that relate to the Business and that: (A) payments provided for or actually made thereunder by or to the Company or any of the Subsidiaries in any calendar year exceed $25,000, (B) require performance by the Company or any of the Subsidiaries of any obligation for a period of time extending beyond six (6) months from the Closing Date or which is not terminable by the Company or any of the Subsidiaries without penalty upon sixty (60) days or less notice, (C) evidence, create, guarantee or service indebtedness of the Company or any of the Subsidiaries, (D) establish or provide for any joint venture, partnership or similar arrangement involving any of the Stockholders, the Company or any of the Subsidiaries, or (E) guarantee or endorse the Liabilities of any other Person.

The lists in all Schedules referred to above are correct and complete as of the date hereof unless otherwise noted thereon.

(b) Copies. Correct and complete copies of all the written Contracts, and correct and complete descriptions of all oral Contracts, referred to in Section 2.23(a) have been delivered to Purchaser on or before the date hereof.

(c) No Default. None of the Company, any of the Subsidiaries or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, any other party is in Default under any of the Contracts or any Liens referred to in Section 2.23(a) and, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, there is no basis for any claim of Material Default under any of the foregoing.

(d) Assurances. Each of the Contracts referred to in this Section 2.23 is in full force and effect and constitutes a valid, legal and binding agreement of the Company or the Subsidiaries party thereto and, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, the other parties thereto, enforceable in accordance with its terms except for bankruptcy, insolvency,

fraudulent conveyance, reorganization, moratorium or other Laws affecting creditors' rights generally, or general equitable principles (regardless of whether considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing, and as otherwise set forth in Schedule 2.23 . Neither the Company nor any of the Subsidiaries is a party to or bound by any Contract or Contracts that, either separately or in the aggregate has or will have a Material Adverse Effect with respect to the Company, any of the Subsidiaries, their respective assets, or the Business. The continuation, validity and effectiveness of each of the Contracts referred to in this Section 2.23 will not be affected in any way by the consummation of the transactions contemplated by this Agreement.

2.24 SUPPLIERS AND CUSTOMERS. Schedule 2.24 sets forth each supplier to whom payments were made that equaled or exceeded five percent (5%) of the Company's and each of the Subsidiaries' aggregate operating expenses for the fiscal year ended December 28, 1997 (the "Large Suppliers"). Schedule 2.24 sets forth each customer or group of related customers from whom payments were received that equaled or exceeded five percent (5%) of the Company's and each of the Subsidiaries' aggregate gross sales for the fiscal year ended December 28, 1997 (the "Large Customers"). Except as reflected in Schedule 2.24, no Large Supplier is a sole source of supply of any good or service to the Company or any of the Subsidiaries. To the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, the relationships of the Company and each of the Subsidiaries with its Large Suppliers and Large Customers are good commercial working relationships and, except as set forth on Schedule 2.24, neither (i) any of the Large Suppliers or any of the Large Customers, nor (ii) any Large Supplier who at any time during 1997 was or now is the sole source of supply of any good or service, has terminated, or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, made any threat reasonably likely to be acted upon to terminate, its relationship with the Company or any of the Subsidiaries or has during the last twelve (12) months Materially decreased or Materially limited, or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, made any threat reasonably likely to be acted upon to Materially decrease or Materially limit, its services, supplies or materials to the Company or any of the Subsidiaries or its usage or purchase of the goods or services of the Company or any of the Subsidiaries, as the case may be. None of the Company, any of the Subsidiaries or any of the Stockholders has any Knowledge and belief that any of the Large Suppliers or an of the Large Customers intends to terminate or otherwise modify adversely to the Company or any of the Subsidiaries its relationship with the Company or any of the Subsidiaries or to decrease or limit its services, supplies or materials to the Company or any of the Subsidiaries or its usage or purchase of the goods or services of the Company or any of the Subsidiaries, as the case may be, and the acquisition of the Stock by Purchaser will not, to the Knowledge of the Company, any of the Subsidiaries or an of the Stockholders adversely affect the relationship of the Business or of the Company or any of the Subsidiaries with any of the Large Suppliers or any of the Large Customers.

2.25 LABOR MATTERS. Schedule 2.25 contains a correct and complete list of all employees of the Company and each of the Subsidiaries whose direct annual compensation exceeds $50,000. Except as disclosed on Schedule 2.25, the employment of all employees of the Company and each of the Subsidiaries is terminable at will by the Company and each of the Subsidiaries, respectively, without any penalty or severance obligation incurred by the Company or any of the Subsidiaries. Except as set forth on Schedule 2.25 and other than in the ordinary course of business consistent with past practices, neither the Company nor any of the Subsidiaries will owe any amounts to any of its employees as of the Closing Date, including, without limitation, any amounts incurred for wages, bonuses, vacation pay, sick leave or any severance obligations other than amounts owed with respect to the then current pay period. Except as and to the extent set forth in Schedule 2.25, (i) neither the Company nor any of the Subsidiaries is a party to any union agreement or collective bargaining agreement or work rules or practices agreed to with any labor organization or employee association applicable to any employees of the Company or any of

the Subsidiaries and, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, no attempt to organize any of the employees of the Business has been made, proposed or threatened in the past three years, (ii) neither the Company nor any of the Subsidiaries is, or within the past three years has been, subject to any Equal Employment Opportunity Commission charges or other claims of employment discrimination made against it, (iii) no Wage and Hour Department investigations have been made in the past 3 years of the Company or any of the Subsidiaries, (iv) no labor strike, dispute, slowdown, stoppage or lockout is pending or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, threatened against or affecting the Company, any of the Subsidiaries, their respective assets or the Business and during the past five (5) years there has not been any such action, (v) no unfair labor practice charge or complaint against the Company or any of the Subsidiaries is pending or, to the Knowledge of the Company, any of the Subsidiaries or any of the Stockholders, threatened before the National Labor Relations Board or any similar Governmental Authority, and (vi) neither the Company nor any of the Subsidiaries has received any formal notice (other than as set forth in Section 6.07 hereof) that any of the employees listed on Schedule 2.25 will terminate or contemplates terminating his or her employment currently or at any time within sixty (60) days after the Closing Date or will otherwise not be available to the Company or any of the Subsidiaries. Since the enactment of the Worker Adjustment and Retraining Notification Act (the "WARN Act"), neither the Company nor any of the Subsidiaries has effectuated (a) a "plant closing" (as defined in the WARN Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of the Company or any of the Subsidiaries; or (b) a "mass layoff" (as defined in the WARN Act) affecting any site of employment or facility of the Company or any of the Subsidiaries; nor has either the Company or any of the Subsidiaries been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of any simila state or local Law. Except as set forth in Schedule 2.25, none of the Company's or any of the Subsidiaries' employees has suffered an "employment loss" (as defined in the WARN Act) since six (6) months prior to the date hereof.

2.26 BROKERS AND FINDERS. Except as set forth on Schedule 2.26, no finder or any agent, broker or other Person acting pursuant to authority of the Company, any of the Subsidiaries or any of the Stockholders is entitled to any commission or finder's fee in connection with the transactions contemplated by this Agreement.

2.27 INTERESTED TRANSACTIONS. Except as set forth in Schedule 2.27, neither the Company nor any of the Subsidiaries is a party to any Contract or other transaction with any Affiliate of the Company or any of the Subsidiaries, any Related Party of any Affiliate of the Company or any of the Subsidiaries (other than as a stockholder or employee of the Company or any of the Subsidiaries), or any Person in which any of the foregoing (individually or in the aggregate) beneficially or legall owns, directly or indirectly, five percent (5%) or more of the equity or voting interests (other than, in each case, Contracts or transactions between or among the Company and its Subsidiaries). Each of such Contracts and other transactions described in the preceding sentence was negotiated on an arm's length basis, contains pricing terms that reflected fair market value at the time entered into and otherwise contains terms and conditions comparable to those customarily contained in similar transactions between unrelated parties. Except as described in Schedule 2.27 and other than the Stockholders and their Affiliates, none of the Persons described in the first sentence of this Section 2.27 owns, or during the last three (3) years has owned, directly or indirectly, beneficially or legally, (individually or in the aggregate) five percent (5%) or more of the equity or voting interests of any Person that competes with the Company, any of the Subsidiaries or the Business.

2.28 OFFICERS, DIRECTORS AND BANK ACCOUNTS. Schedule 2.28 lists (i) the names of all officers and directors of the Company and each of the Subsidiaries and (ii) the name and location of each

bank or other institution in which the Company or any of the Subsidiaries has any deposit account or safe deposit box in which the Company or any of the Subsidiaries has any interest or access, all account numbers and names of all Persons authorized to draw thereon or to have access thereto.

2.29 REPORTS AND FINANCIAL STATEMENTS. The Company has filed all reports required to be filed with the Securities and Exchange Commission since January 1, 1997 (collectively, the "SEC Reports"). None of such SEC Reports, as of their respective dates or as of the date of any amendment or supplement thereto, contained any 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, in light of the circumstances under which they were made, not misleading . Each of the financial statements (including the related notes) included in the SEC Reports presents fairly, in all Material respects, the consolidated financial position and consolidated results of operations and cash flows of the Company and its subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with GAAP consistently applied during the periods involved, except as otherwise noted therein, and subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and any other adjustments described therein. All of such SEC Reports, as of their respective dates, complied in all material respects with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

2.30 STATEMENTS TRUE AND CORRECT. No representation or warranty made by the Company or the Stockholders, nor any statement, certificate or instrument furnished or to be furnished to Purchaser pursuant to this Agreement, the Other Agreements or any other document, agreement or instrument referred to herein or therein, including, without limitation, the Financial Statements, contains or will contain any untrue statement of fact or omits or will omit to state a Material fact necessary to make the statements contained therein not misleading in light of the circumstances under which they were made.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to the Company and the Stockholders that:

3.01 ORGANIZATION. Purchaser is a corporation duly organized, validly existing, and in good standing under the laws of the State of Georgia, with the corporate power and authority to carry on its business and to own, lease and operate its assets.

3.02 CAPACITY AND VALIDITY. Purchaser has the full corporate power and authority necessary to enter into and perform its obligations under this Agreement and the Other Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the Other Agreements will have been approved by all necessary action of the Board of Directors and stockholders of Purchaser on or before Closing. This Agreement has been, and the Other Agreements will be when executed and delivered, duly executed and delivered by duly authorized officers of Purchaser, and the Agreement and each of the Other Agreements constitutes, or will constitute when executed and delivered, the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other simila laws relating to or affecting creditors' rights generally or general equitable principles (regardless of whether considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

3.03 NO CONFLICT. Except as disclosed on Schedule 3.03, neither the execution, delivery and performance of this Agreement and the Other Agreements to which it is a party by Purchaser nor the consummation of the transactions contemplated hereby or thereby, will (i) conflict with or result in a violation, contravention or breach of any of the terms, conditions or provisions of the Articles of Incorporation, as amended, or By-laws, as amended, of Purchaser, (ii) result in a Default under or require the consent or approval of any party to, Contract or License of Purchaser, (iii) result in the violation of any Law or Order, or (iv) result in the creation or imposition of any Lien.

3.04 BROKERS AND FINDERS. Except as set forth in Schedule 3.04, no finder or any agent, broker or other Person acting pursuant to authority of Purchaser is entitled to any commission or finder's fee in connection with the transactions contemplated by this Agreement.

3.05 INVESTMENT REPRESENTATION. Purchaser is purchasing the Stock for investment and is not acquiring the Stock with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act of 1933, as amended.

3.06 QUALIFICATION OF PURCHASER. Purchaser is fully qualified to assume control and operation of the Stations and, to the best of Purchaser's knowledge and belief, there exists no reason for the FCC to refuse to consent to the assignment of the broadcast Licenses to Purchaser.

3.07 FINANCING. Purchaser has all necessary financial resources or has secured a binding commitment for all financing necessary for Purchaser to consummate the transactions contemplated by this Agreement.

3.08 STATEMENTS TRUE AND CORRECT. No representation or warranty made by Purchaser, nor any statement, certificate or instrument furnished or to be furnished to the Company or the Stockholders pursuant to this Agreement, the Other Agreements or any other document, agreement or instrument referred to herein or therein, contains or will contain any untrue statement of fact or omits or will omit to state a fact necessary to make the statements contained therein not misleading.

ARTICLE IV ,
COVENANTS AND ADDITIONAL AGREEMENTS OF THE COMPANY, THE STOCKHOLDERS AND PURCHASER

4.01 CONDUCT OF BUSINESS. Prior to the Closing Date, except with the prior written consent of Purchaser and except as necessary to effect the transactions contemplated in this Agreement, the Company shall, and the Stockholders shall cause the Company and each of the Subsidiaries to:

(a) conduct the Business in substantially the same manner as presently being conducted, and refrain from entering into any transaction or Contract other than in the ordinary course of business consistent with past practice, except as otherwise contemplated by this Agreement;

(b) confer on a regular and frequent basis with Purchaser to report Material operational matters and to report the general status of ongoing operations;

(c) notify Purchaser of any unexpected emergency or other change in the normal course of the Business or the operation of the assets of the Company or any of the Subsidiaries, and of any Litigation (or communications indicating that the same may be contemplated), affecting the

Company, any of the Subsidiaries, the Business or any Material assets, and keep Purchaser fully informed of such events and permit its representatives prompt access to all materials prepared i connection therewith in each case where such emergency, change, Litigation or other event could cause a Material Adverse Effect;

(d) except in the ordinary course of business consistent with past practice, not make any Material capital expenditure;

(e) not take any action, or omit to take any action, that would cause the representations and warranties contained in Article II hereof to be incorrect or incomplete in any Material respect;

(f) promptly notify Purchaser in writing of any Material Adverse Change with respect to the Company, the Business or any of the Subsidiaries, or any condition or event which threatens to result in a Material Adverse Change with respect to the Company, the Business or any of the Subsidiaries;

(g) notwithstanding the $1,000,000 threshold contained in the definition of Material Adverse Change in Article IX, use all reasonable efforts to promptly remedy any adverse change, condition or event that causes or is reasonably likely to cause any of the Stations to be or go off the air; and

(h) not make any agreement or commitment which will result in or cause to occur a Default of any of the items contained in paragraphs (a) through (g) above.

Notwithstanding any of the foregoing provisions of this Section 4.01, prior to the Closing, control of the operation of the Stations shall remain exclusively with the Company, any of the Subsidiaries and the Stockholders.

4.02 RIGHT OF INSPECTION; ACCESS. In order to allow Purchaser to conduct its due diligence investigation, including, without limitation, environmental due diligence, the Company shall give to Purchaser and its designees, during normal working hours, full and free access to all of its and each of the Subsidiaries' respective assets, Contracts, reports and other records and shall furnish to Purchaser and its designees all additional financial, legal and other information with respect to the Company, any of the Subsidiaries, their respective assets and the Business that Purchaser may reasonably request. The Company shall also allow and arrange for Purchaser and its designees free and full access and opportunity, during normal business hours, to consult and meet with the officers, directors, employees, attorneys, accountants and other agents of the Company and each of the Subsidiaries. The Company shall instruct such individuals to cooperate fully with Purchaser and its designees. Purchaser and its designees shall have the right to make copies of any of the records referred to above. In addition to the foregoing, the Company and the Stockholders shall provide to Purchaser such evidence as Purchaser reasonably requires to verify the accuracy of the representation and warranty contained in paragraph (m) of Section 2.10. Within thirty (30) days after the date of this Agreement, the Stockholders shall provide to Purchaser a letter from Arthur Andersen in form and substance reasonably satisfactory to Purchaser and its counsel that verifies that since April 20, 1995 there has not been an ownership change (within the meaning of Section 382 of the Code) with respect to the Company. Further, at Closing, the Stockholders shall provide to Purchaser an updated letter from Arthur Andersen bringing current to the Closing Date the letter provided pursuant to the foregoing sentence. Purchaser agrees to indemnify against and hold the Company, the Subsidiaries and the Stockholders harmless from any claim for Liability, costs, expenses (including reasonable attorneys' fees

actually incurred), damages or injuries arising out of or resulting from the inspection of the Company by Purchaser or its agents.

4.03 OTHER OFFERS AND EXCLUSIVE DEALING. Unless and until this Agreement is terminated prior to Closing pursuant to Section 8.01, the Company and each of the Stockholders shall, and shall cause each of the Subsidiaries to, deal exclusively with Purchaser with respect to the sale of the Stock or any assets or properties of the Company or any of the Subsidiaries. In addition, unless and until this Agreement is terminated prior to Closing pursuant to Section 8.01, neither the Company no any of the Stockholders, acting in any capacity, shall, and the Company and the Stockholders shall direct each of the Subsidiaries and the officers, directors, limited partners, general partners (as applicable), financial advisors, accountants and counsel of the Company, any of the Subsidiaries and the Stockholders not to, either directly or indirectly, through the Company, any of the Subsidiaries, any officer, director, employee, agent or otherwise, (a) solicit, initiate or encourage submission of proposals or offers from any Person relating to any purchase of the Stock, or any merger, sale of substantial assets, or purchase of securities or similar transaction involving the Company or any of the Subsidiaries, (b) participate in any discussions or negotiations regarding, or, except as required by a legal or judicial process, furnish to any other Person any information with respect to, or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any other Person to purchase the assets of the Company or any of the Subsidiaries, or engage in a merger, purchase of substantial assets or purchase of stock or similar transaction involving the Company or any of the Subsidiaries, or (c) approve or undertake any such transaction. If, notwithstanding the foregoing, the Company, the Stockholders or any of their respective shareholders, directors, partners, officers, employees or agents shall receive any written proposal or inquiry regarding any such transaction, the Company and the Stockholders shall, and shall cause any of the Subsidiaries to, promptly communicate to Purchaser the terms of any such proposal or offer upon Knowledge or receipt of such written proposal or offer.

4.04 CONFIDENTIALITY. For a period of one (1) year from and after the date hereof, each of Purchaser, the Company and the Stockholders agrees that it will not, and will use reasonable efforts to ensure that none of its representatives or Affiliates will, use in the conduct of its business (except as contemplated by this Agreement), or disclose to or file with any other Person (other than financing sources, financial advisors, accountants and attorneys for the foregoing who will be informed of the confidential nature of such information and who have a need to know such information), (a) any confidential or non-public information relating to the other parties to this Agreement or (b) the existence of this Agreement or the fact of the transactions contemplated hereby, except (i) for a disclosure that is required by Law or by a Governmental Authority or is reasonably believed to be so required, including, without limitation, disclosures to the FCC and the Department of Justice for purposes of obtaining consents to the transactions contemplated hereby and disclosures to the Securities and Exchange Commission and related public disclosures (in connection with public offerings or otherwise); (ii) information that is ascertainable or obtained from public or published information; (iii) information received from a Third Party not known to the disclosing party to be under an obligation to keep such information confidential; (iv) information independently developed by the disclosing party or (v) information disclosed to or filed with any Persons necessary to obtaining the consents or the equity and debt financing relating to the transactions contemplated by this Agreement. Notwithstanding the foregoing, (i) neither Purchaser nor its assignees, in the course of any investigation it shall deem necessary and desirable in connection with the transactions contemplated by this Agreement, shall be prohibited from discussing the Company, any of the Subsidiaries, their respective assets and the Business with others having business dealings with the Company or any of the Subsidiaries, and (ii) the foregoing provisions of this Section 4.04 shall not apply to Purchaser or any of its representatives or Affiliates after consummation of the transactions contemplated hereby at the Closing with respect to information relating to the Company or its Subsidiaries. If the transaction

contemplated by this Agreement is not consummated, each party will return or destroy as much of such written information as the party furnishing such information may reasonably request.

4.05 CONSENTS AND APPROVALS. The Company and the Stockholders shall obtain the waiver, consent and approval of all Persons whose waiver, consent or approval (i) is required in order to consummate the transactions contemplated by this Agreement, or (ii) is required by any Material Contract, Order, Law or License to which the Company, any of the Subsidiaries or any of the Stockholders is a party or subject on the Closing Date, and Purchaser shall cooperate with the Company and the Stockholders in connection therewith. All written waivers, consents and approvals obtained by the Company and the Stockholders shall be produced at Closing in form and content reasonably satisfactory to Purchaser.

4.06 SUPPLYING OF FINANCIAL STATEMENTS. The Stockholders shall cause the Company and each of the Subsidiaries to deliver to Purchaser within twenty (20) days following the end of each month true and complete copies of all unaudited monthly financial statements of the Company and each of the Subsidiaries for each calendar month ending subsequent to the date hereof and prior to the Closing Date in the format historically utilized internally by the Company and each of the Subsidiaries. In addition, the Stockholders shall cause the Company and each of the Subsidiaries to deliver to Purchaser as soon as practicable consolidated audited financial statements as of December 28, 1997 and for the year then ended.

4.07 QUALIFICATION AND CORPORATE EXISTENCE. The Company shall deliver to Purchaser (i) certificates of the Secretary of State of the State of Delaware, dated within ten (10) days prior to the Closing Date, stating that the Company and each of the Subsidiaries are corporations in good standing under the laws of the State of Delaware, and have paid all applicable franchise and other fees and Taxes due to such state and (ii) certificates of the appropriate officials of the states and foreign jurisdictions listed on Schedule 2.03, each dated not more than ten (10) days prior to the Closing Date, stating that each of the Company and each of the Subsidiaries is duly qualified and in good standing to transact business as a foreign corporation as stated in Section 2.03 in each such state and foreign jurisdiction and has paid all applicable franchise and other fees and Taxes due to each such state and foreign jurisdiction.

4.08 PUBLIC ANNOUNCEMENTS. Upon execution of this Agreement, Purchaser and the Company shall each issue a press release and public announcement regarding this Agreement and the transactions contemplated hereby, each of which press releases shall be reasonably satisfactory to the other party. Except as permitted by the foregoing sentence or Section 4.04, none of Purchaser, the Company, or the Stockholders, nor any of their representatives or Affiliates, shall make any public announcement with respect to this Agreement or the transactions contemplated hereby without the prior consent of the other parties hereto unless required by Law or judicial process, in which case notification shall be given to the other parties hereto prior to such disclosure.

4.09 CLOSING CONDITIONS. Subject to the terms and conditions herein provided, each of the parties hereto agrees to take, or cause to be taken, all commercially reasonable actions to consummate the transactions contemplated by this Agreement and to satisfy the conditions precedent to Closing set forth in Article VI and Article VII of this Agreement.

4.10 SUPPLEMENTS TO SCHEDULES. The Company and the Stockholders shall from time to time after the date hereof, supplement or amend the Schedules referred to in Article II with respect to any matter arising after the date hereof which, if existing or occurring at the date hereof, would have been required to be set forth or described in such Schedules. Purchaser may unilaterally extend the Closing Date if necessary to allow Purchaser five (5) business days to review such supplements to the Schedules prior to the Closing Date. If, in Purchaser's reasonable determination, any such supplements to the Schedules

reveal any Material Adverse Change with respect to the Company, any of the Subsidiaries or the Business, or any condition or event which threatens to result in a Material Adverse Change with respect to the Company, any of the Subsidiaries or the Business, Purchaser may, subject to the Stockholder's right to cure any such Material Adverse Change or reduce the Purchase Price in the manner contemplated herein, terminate this Agreement pursuant to Section 8.01.

4.11 CERTAIN TAX MATTERS.

(a) Purchaser, on the one hand, and the Company and the Stockholders, on the other hand, shall provide the other parties to this Agreement, at the expense of the requesting party, with such assistance as may reasonably be requested by any of them in connection with the preparation of any Tax Return, any audit or other examination by any Governmental Authority, or any judicial or administrative proceedings relating to any Liability for Taxes, and each will retain and provide the requesting party with any records or information that may be relevant to any of the foregoing.

(b) The Stockholders shall cause the Company to prepare and file on or before the due date therefor (including any extensions thereof) all Tax Returns and amendments thereto required to be filed by the Company on or before the Closing Date, and shall cause the Company to pay, or cause to be paid, all Taxes (including estimated taxes) due on such Tax Return or which are otherwise required to be paid at any time prior to or during such period. Such Tax Returns shall be prepare in accordance with the most recent Tax practices as to elections and accounting method. Purchaser shall have a reasonable opportunity to review all Material Tax Returns and amendments thereto prior to their filing.

(c) The Stockholders shall not, without the prior written consent of Purchaser, file or cause to be filed, any amended Tax Return or claim for Tax Refund with respect to the Company or any Subsidiary for any period ending on or before the Closing Date, to the extent that any such filing may affect the Tax Liability of Purchaser, any of its Affiliates, the Company or any Subsidiary for any period ending after the Closing Date (including, but not limited to, the imposition of Tax deficiencies, the reduction of asset basis or cost adjustments, the lengthening of any amortization or depreciation periods, the denial of amortization or depreciation deductions, or the reduction of loss or credit carryforwards).

(d) To the extent the Company, any of the Subsidiaries or any of the Stockholders have Knowledge of the commencement or scheduling of any Tax audit, the assessment of any Tax, the issuance of any notice of Tax due or any bill for collection of any Tax, or the commencement or scheduling of any other administrative or judicial proceeding with respect to the determination, assessment or collection of any Tax of the Company or any of the Subsidiaries, the Company, the Subsidiarie or the Stockholders shall provide prompt notice to Purchaser of such matter, setting forth information (to the extent Known) describing any asserted Tax Liability in reasonable detail and including copies of any notice or other documentation received from the applicable Tax authority with respect to such matter.

(e) The Stockholders shall furnish Purchaser on or before the Closing Date an affidavit, stating, under penalty of perjury, the transferor's United States taxpayer identification number and that the transferor is not a foreign person, pursuant to Section 1445(b)(2) of the Code.

(f) The Stockholders shall not agree to settle any Tax Liability or compromise any claim with respect to Taxes which settlement or compromise may affect the Liability

for Taxes hereunder (or right to Tax benefit hereunder) of the Company or Purchaser without Purchaser's prior written consent.

4.12 EXPENSES.

(a) Except as provided below, regardless of whether the transactions contemplated by this Agreement are consummated, the Company shall be responsible for all expenses and fees incurred by it and by the Stockholders in connection with the transactions contemplated hereby and Purchaser shall be responsible for all expenses and costs incurred by it in connection with the transactions contemplated hereby.

(b) At the Closing the Stockholders shall pay out of the Purchase Price all Taxes, if any, relating to the transfer of the Stock to Purchaser. The Stockholders shall file all necessary documentation and Tax Returns required to be filed by them with respect to such Taxes.

(c) The Company and Purchaser each shall pay one-half of the costs and fees relating to the environmental report or reports required by Section 6.13.

(d) The Company and Purchaser shall each pay one-half of the initial $45,000 filing fee associated with the pre-merger notifications and reports required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(e) The Company shall bear the costs and expenses associated with delivery of the title documents described in Section 6.14.

(f) The Company and Purchaser shall each pay one-half of the processing fees incident to the filing of the transfer of control applications with the FCC; provided that none of the Company or any Stockholder shall have any obligation to pay any such processing fees arising out of the transactions contemplated by Section 4.16.

4.13 FURTHER ASSURANCES. At any time and from time to time after the Closing, the Company and the Stockholders shall, at the request of Purchaser, take any and all actions necessary to fulfill their respective obligations hereunder, to put Purchaser in actual possession and control of the Stock and execute and deliver such further instruments of conveyance, sale, transfer and assignment, and take such other actions necessary or desirable to effectuate, record or perfect the transfer o the Stock to Purchaser free and clear of all Liens, to confirm the title of the Stock to Purchaser, to assist Purchaser in exercising rights relating thereto, or to otherwise effectuate or consummate any of the transactions contemplated hereby.

4.14 DELIVERY OF BOOKS AND RECORDS. The Company and the Stockholders shall deliver to Purchaser at the Closing all original documents, books and records pertaining to the Company, the Business and the Stock, including without limitation, the original minute books and stock record books. The Company and the Stockholders may retain copies of any of the foregoing for their own use. Without limiting the generality of the foregoing, the Company and the Stockholders shall deliver to Purchaser at the Closing all documents and records relating to the Intellectual Property, including without limitation, Certificates of Registration for all letters patent, trademarks and service marks listed on Schedule 2.14 and all such documents relating thereto.

4.15 FCC MATTERS.

(a) If not previously filed, then as promptly as practical following the date of this Agreement, the Company and Purchaser or its assignees shall prepare and file, and the Company shall cause each of the Subsidiaries as may be required or necessary to prepare and file, with the FCC all necessary applications for approval of the transactions contemplated in this Agreement. In connection therewith, Purchaser or its assignees shall provide the information requested by the FCC and take actions reasonably necessary to enable the FCC to grant the applications including, but not limited to, authority for KGIN-TV to operate as a satellite of KOLN-TV within the time periods contemplated by this Agreement.

(b) The Company, each of the Stockholders and Purchaser further covenant that from the date hereof until the Closing Date, without the prior written consent of the Company or Purchaser, as the case may be, neither the Company nor Purchaser shall take any action, and neither the Company nor any of the Stockholders shall permit any of the Subsidiaries to take any action, that is reasonably likely to adversely affect, or delay or interfere with, obtaining the FCC Order or complying with or satisfying the terms thereof, including without limitation, acquiring any new or increased attributable interest, as defined in the FCC rules, in any media property, which property could not be held (without the need for a waiver) in common control by the Company, any of the Subsidiaries and Purchaser following the Closing Date.

4.16 COOPERATION TO EFFECT STATION EXCHANGE. Each of the Stockholders and the Company shall use reasonable efforts to cooperate with Purchaser to effect a tax-free, like-kind exchange of Purchaser's Albany station with a designated purchaser of one or more of the Stations, provided that such exchange shall not be likely to cause the Closing to occur subsequent to September 1, 1998. Purchaser will bear all costs and expenses resulting from or arising out of any such like-kind exchange In addition, the identification of such purchaser, the closing of such transaction or the execution of documents relating thereto shall not be a condition to the Closing. The provisions of this Section will expire if Purchaser has not identified to the Stockholders such designated purchaser and the terms of such like-kind exchange by April 15, 1998.

4.17 NAME CHANGE. Immediately following the Closing, Purchaser shall cause the Company to take all action necessary to change its name to delete any references to "Busse" therein.

4.18 SEVERANCE AND INCENTIVE PAYMENTS. The parties intend that either (i) prior to the Closing, the Company will make payments to certain of its employees or former employees pursuant to the Company's obligations to make severance or incentive payments as a result of the transactions contemplated by this Agreement, which payments include payments required under the Company's Long Term Incentive Plan, the Company's Incentive Fee Plan, the Amended and Restated Employment Agreement with Lawrence A. Busse and the Amended and Restated Employment Agreement with James C. Ryan or (ii) the amount of such obligations will be a reduction in the Purchase Price pursuant to Section 1.02. Further, the Company and the Stockholders shall provide Purchaser with such evidence as it shall reasonably require to verify that such payments were made prior to the Closing or to verify the amount of such obligations for purposes of calculating the Purchase Price.

4.19 HSR FILINGS. Purchaser, the Company and the Stockholders shall, as promptly as practicable following the execution of this Agreement, and in cooperation with each other, file with the Department of Justice and the Federal Trade Commission the premerger notification forms and any other documents required under the HSR Act, and each shall use its best efforts to obtain earliest termination of all waiting periods under the HSR Act.

4.20 FURTHER ACTIONS. Subject to the terms and conditions of this Agreement, the Stockholders, the Company and Purchaser each agrees to use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated in this Agreement and to satisfy the conditions hereto, in each case in as prompt a manner as is reasonably possible.

ARTICLE V .
NO SURVIVAL OF REPRESENTATIONS AND WARRANTIES .

None of the representations or warranties made by the parties in this Agreement and the Other Agreements shall survive the Closing hereunder.

ARTICLE VI .
CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

The obligations of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date, of each and every one of the following conditions, all or any of which may be waived, in whole or in part, by Purchaser for purposes of consummating such transactions, but without prejudice to any other right or remedy which Purchaser may have hereunder as a result of any misrepresentation by, or breach of any agreement, covenant or warranty of the Company or the Stockholders contained in this Agreement or any Other Agreement:

6.01 REPRESENTATIONS TRUE AND COVENANTS PERFORMED AT CLOSING. The representations and warranties made by the Company and each of the Stockholders shall be correct and complete in all Material respects on the Closing Date with the same force and effect as if such representations and warranties had been made on and as of the Closing Date. The Company and each of the Stockholders shall have each duly performed and complied in all Material respects with all of the agreements, covenants, acts and undertakings to be performed or complied with by it in all Material respects on or prior to the Closing Date. The Company and each of the Stockholders shall have delivered to Purchaser a certificate or certificates dated as of the Closing Date certifying as to the fulfillment of the conditions of this Section 6.01. Notwithstanding any other provision of this Agreement to the contrary, for purposes of this Section 6.01, all Materiality qualifications contained in the representations and warranties made by the Company and each of the Stockholders shall be disregarded and given no effect.

6.02 INCUMBENCY CERTIFICATE. Purchaser shall have received an appropriate incumbency certificate or certificates, dated the Closing Date, certifying the incumbency of all officers of the Company and the partners and agents of each Stockholder who have executed this Agreement and the Other Agreements. The certificate or certificates shall contain specimens of the signatures of each of the officers, agents and partners whose incumbency is certified and shall be executed by officers of the Company and partners of each Stockholder other than officers and partners, respectively, whose incumbency is certified.

6.03 CERTIFIED COPIES OF RESOLUTIONS. Purchaser shall have received copies, certified by the duly qualified and acting Secretary or Assistant Secretary of the Company and each corporate general partner of any Stockholder, of resolutions adopted by the Board of Directors of the Company and each such corporate partner of any Stockholder approving this Agreement and the Other Agreements and the consummation of the transactions contemplated hereby and thereby.

6.04 OPINIONS OF COUNSEL. Purchaser shall have received (i) a written opinion of Cadwalader, Wickersham & Taft, counsel to the Stockholders, dated the Closing Date and substantially in the form of Exhibit 6.04(i) attached hereto and made a part hereof by this reference, (ii) a written opinion of Winston & Strawn, counsel to the Company and the Subsidiaries, dated the Closing Date and substantially in form and substance reasonably satisfactory to Purchaser and its counsel, and (iii) a written opinion of Pepper & Corazzini L.L.P., FCC counsel to the Company and each of the Subsidiaries, dated the Closing Date and substantially in the form of Exhibit 6.04(ii) attached hereto and made a part hereof by this reference.

6.05 NO MATERIAL ADVERSE CHANGE. There shall not have occurred any Material Adverse Change, or any condition or event that is reasonably likely to cause a Material Adverse Change, with respect to the Business, the Company, or any of the Subsidiaries, taken as a whole, or any of their respective assets from the Balance Sheet Date. The Company and each of the Stockholders shall have delivered to Purchaser a certificate or certificates dated as of the Closing Date executed by the Company and each of the Stockholders certifying the foregoing statement.

6.06 NO INJUNCTION, ETC. No Litigation, Law, Order or legislation shall have been instituted, threatened or proposed by a Third Party before any court or Governmental Authority to enjoin, restrain, prohibit or obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby, if such Litigation, Law, Order or legislation, in the reasonable judgment of Purchaser, would make it inadvisable to consummate the transactions contemplate hereby.

6.07 RESIGNATIONS. Purchaser shall have received a written instrument signed by each of the directors and officers of the Company and each of the Subsidiaries resigning from the Board of Directors and as corporate officers of the Company and each of the Subsidiaries, as the case may be, effective the Closing Date.

6.08 APPROVAL OF LEGAL MATTERS. All actions, proceedings, instruments and documents reasonably deemed necessary or appropriate by Purchaser or its attorneys to effectuate this Agreement and to consummate the transactions contemplated hereby shall have been approved by such attorneys in the exercise of their reasonable discretion.

6.09 FCC APPROVALS. The FCC shall have given all requisite approvals and consents, without any condition or qualification Materially adverse to Purchaser or its assignee, the Company or any of the Subsidiaries or Materially adverse to the operations of the Business, to the acquisition of control of the Company or any of the Subsidiaries by Purchaser as provided in this Agreement (whether or not any appeal or request for reconsideration or review is pending or the time for filing any appeal or request for reconsideration or review, or for any sua sponte action by the FCC with similar effect has expired), including without limitation, any Materially Adverse Condition on Purchaser's acquisition or operation of any of the Stations. In addition, the FCC shall have granted the renewal of the FCC Licenses of each Station for a full eight (8) year term from the date of the expiration of the most recent License term.

6.10 HART-SCOTT APPROVAL. All waiting periods applicable to this Agreement and the transactions contemplated hereby under the Hart-Scott Act shall have expired or been terminated.

6.11 ENVIRONMENTAL REPORT. Prior to the Closing, the Company shall (i) provide to Purchaser a letter from the Nebraska Department of Environmental Quality ("DEQ") stating that no further investigation or remediation will be required by DEQ related to the two fuel oil underground storage tanks formerly located at KOLN-TV, Lincoln, Nebraska and noted in Section 4.7 of the Environmental Report

related to KOLN-TV (the "Former USTs"), or (ii) cause, at its sole cost and expense, Montgomery Watson or such other environmental consultant as shall be reasonably acceptable to Purchaser (the "Environmental Consultant") to perform an investigation, consistent with applicable state regulations (the "Investigation"), of the area surrounding the Former USTs to determine if contamination from the Former USTs is present. In the event actionable levels of contamination related to the Former USTs are detected by such Investigation, the Stockholders may, at their sole discretion, elect to cause the Company to remediate the identified contamination in compliance with applicable state regulations (the "Remedial Action"). In the event the Stockholders do not make such election or the Remedial Action is not completed on or prior to the Closing Date, then the Purchase Price shall be reduced by the amount determined by the Environmental Consultant to be reasonably necessary to complete the Remedial Action. The Company shall keep the Purchaser reasonably apprised of the status of any Investigation or Remedial Action by providing the Purchaser with Material documents and information relating to the performance of the Investigation and Remedial Action.

Prior to the Closing, the Company shall further cause Montgomery Watson or the Environmental Consultant to visually observe the towers located in Beaver Crossing and Heartwell, Nebraska and provide a letter report summarizing such observations to Purchaser and the Company. The Environmental Consultant's costs to conduct such visual observations shall be paid equally by the Stockholders and Purchaser. Such letter report shall state that no condition exists with respect to the assets currently owned, leased, operated, or controlled by the Company or any of the Subsidiaries that has resulted in, or would reasonably be expected to result in, any violation of an Environmental Law, any Environmental Claim, or in any Liability relating to an Environmental Matter. Such report shall include an estimate of the total cost of remedying any such condition reported therein. In the event such letter report indicates that such a condition exists, the Stockholders shall remedy such condition to Purchaser's reasonable satisfaction within ninety (90) days after the date of the Stockholders' receipt of the final draft of the letter report. If such condition cannot be remedied to Purchaser's reasonable satisfaction within ninety (90) days, the Purchase Price shall be reduced by the amount determined by Montgomery Watson or the Environmental Consultant to be reasonably necessary to remedy such condition.

6.12 SALES AND USE TAXES. The Company shall have used its reasonable best efforts to obtain and deliver to Purchaser an updated certificate or certificates from the Michigan, Nebraska and Wisconsin Departments of Revenue (or similar Taxing authorities) and from any other state and foreign Tax authority listed on Schedule 2.03 stating that no sales or use Taxes are due relating to the Business or the assets or operations of the Company or any of the Subsidiaries prior to Closing.

6.13 TITLE DOCUMENTS. Purchaser shall have received an owner's title insurance policy (or an endorsement to an existing owner's title insurance policy) for each parcel of the Owned Real Property bringing forward the effective date of the policy to the Closing Date subject to no additional Liens other than Permitted Liens and reflecting no change in ownership of the Owned Real Property. With respect to each parcel of Leased Real Property in which the Company or any of its Subsidiaries is the lessee, except for the Kalamazoo, Michigan leased property, Purchaser shall have received a leasehold insurance policy insuring the Company or its Subsidiary, as the case may be, subject to no Liens other than Permitted Liens and a current updated and revised ALTA survey. Each of the title insurance policies described in this Section 6.13 shall contain zoning endorsements in form and substance reasonably satisfactory to Purchaser and shall be paid equally by the Stockholders and Purchaser. The title insurance commitment for the owner's title insurance policy for the Owned Real Property in Eau Claire County, Wisconsin will be endorsed to remove exception No. 21 relating to a mortgage held by Chemical Bank so that the policy when issued will contain no special exception for the mortgage held by Chemical Bank, but

will reference the estate, right, title and interest of Americus (successor to Sage Broadcasting) and all parties claiming by, through or under Americus.

ARTICLE VII
CONDITIONS PRECEDENT TO OBLIGATIONS OF THE COMPANY AND STOCKHOLDERS

The obligations of the Company and the Stockholders to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date, of each and every one of the following conditions, all or any of which may be waived, in whole or in part, by the Company and the Stockholders for purposes of consummating such transactions, but without prejudice to any other right or remedy which the Company and the Stockholders may have hereunder as a result of any misrepresentation by, or breach of any agreement, covenant or warranty of Purchaser contained in this Agreement or any Other Agreement:

7.01 REPRESENTATIONS TRUE AND COVENANTS PERFORMED AT CLOSING. The representations and warranties made by Purchaser shall be correct and complete in all Material respects on the Closing Date with the same force and effect as if such representations and warranties had been made on and as of the Closing Date. Purchaser shall have duly performed and complied with all of the agreements, covenants, acts and undertakings to be performed or complied with by it on or prior t the Closing Date. Purchaser shall have delivered to the Company and the Stockholders a certificate dated as of the Closing Date certifying as to the fulfillment of the conditions of this Section 7.01. Notwithstanding any other provision of this Agreement to the contrary, for purposes of this Section 7.01, all Materiality qualifications contained in the representations and warranties made by Purchaser shall be disregarded and given no effect.

7.02 INCUMBENCY CERTIFICATE. The Company and the Stockholders shall have received an incumbency certificate or certificates dated the Closing Date certifying the incumbency of all officers of Purchaser who have executed this Agreement or documents in connection with this Agreement. The certificate or certificates shall contain specimens of the signatures of each of the officers whose incumbency is certified and shall be executed by an officer of Purchaser other than an officer whose incumbency is certified.

7.03 CERTIFIED COPIES OF RESOLUTIONS. The Company and the Stockholders shall have received copies, duly certified by the duly qualified and acting Secretary or Assistant Secretary of Purchaser of resolutions adopted by the Board of Directors of Purchaser approving this Agreement and the consummation of the transactions contemplated herein.

7.04 NO INJUNCTION, ETC. No Litigation, Law, Order or legislation shall have been instituted, threatened or proposed by a Third Party before any court or Governmental Authority to enjoin, restrain, prohibit or obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby, if such Litigation, Law, Order or legislation, in the reasonable judgment of Purchaser, would make it inadvisable to consummate the transactions contemplated hereby.

7.05 HART-SCOTT ACT APPROVAL. All waiting periods applicable to this Agreement and the transactions contemplated hereby under the Hart-Scott Act shall have expired or been terminated.

7.06 APPROVAL OF LEGAL MATTERS. All actions, proceedings, instruments and documents reasonably deemed necessary or appropriate by the Stockholders or their attorneys to effectuate this Agreement and to consummate the transactions contemplated hereby shall have been approved by such attorneys in the exercise of their reasonable discretion.

7.07 FCC APPROVALS. The FCC shall have given all requisite approvals and consents, without any condition or qualification Materially adverse to Purchaser or its assignee, the Company or any of the Subsidiaries or Materially adverse to the operations of the Business, to the acquisition of control of the Company or any of the Subsidiaries by Purchaser as provided in this Agreement (whether or not any appeal or request for reconsideration or review is pending or the time for filing any appeal or request for reconsideration or review, or for any sua sponte action by the FCC with similar effect has expired), including without limitation, any Materially Adverse Condition on Purchaser's acquisition or operation of any of the Stations. In addition, the FCC shall have granted the renewal of the FCC Licenses of each Station for a full eight (8) year term from the date of the expiration of the most recent License term.

7.08 OPINIONS OF COUNSEL. The Stockholders shall have received a written opinion of either Heyman & Sizemore or Alston & Bird, LLP, counsel to Purchaser, dated the Closing Date and in form and substance reasonably satisfactory to the Stockholders and their counsel.

ARTICLE VIII
TERMINATION

8.01 CAUSES FOR TERMINATION. This Agreement and the transactions contemplated by this Agreement may be terminated at any time prior to the Closing Date: (i) by the mutual consent of the Stockholders and Purchaser; (ii) by Purchaser in the event the conditions set forth in Article VI of this Agreement shall not have been satisfied or waived by September 1, 1998; (iii) by the Stockholders in the event that the conditions set forth in Article VII of this Agreement shal not have been satisfied or waived by September 1, 1998; (iv) by Purchaser pursuant to Sections 4.10 or 6.11; or (v) by Purchaser or the Stockholders at any time if Purchaser determines in good faith that any Material Adverse Change, or any condition or event that is reasonably likely to cause a Material Adverse Change, with respect to the Company, any of the Subsidiaries, their respective assets or the Business shall have occurred or been discovered since the Balance Sheet Date.

8.02 NOTICE OF TERMINATION. Notice of termination of this Agreement as provided for in this Article VIII shall be given by the party so terminating to the other parties hereto in accordance with the provisions of Section 10.01.

8.03 EFFECT OF TERMINATION. (a) In the event of a termination of this Agreement pursuant to Section 8.01 hereof, except for the confidentiality provisions of Section 4.04, which shall remain in full force and effect, this Agreement shall become void and of no further force and effect, and each party shall pay the costs and expenses incurred by it in connection with this Agreement, and no party (or any of its agents, counsel, representatives, Affiliates or assigns) shall be liable to any other party for any Loss hereunder. Notwithstanding the foregoing sentence, if the non-occurrence of Closing is the direct or indirect result of the Material Default by any of the Stockholders or the Company of any of their or its respective obligations hereunder, including without limitation, any Material inaccuracy in any representation or warranty made by such party, and Purchaser has not Materially Defaulted on any of its obligations hereunder, such Defaulting parties shall be fully liable to Purchaser for any such Default; and if the non-occurrence of

Closing is the direct or indirect result of the Material Default by Purchaser of any of its obligations hereunder, and neither the Company nor any of the Stockholders has Materially Defaulted on any of its respective obligations hereunder, the LC shall be paid to the Stockholders as liquidated damages to compensate the Stockholders and the Company for the damages resulting to such parties from such Default. The parties agree that actual damages pursuant to a breach o this Agreement prior to the Closing would be impossible to measure. Receipt of the LC shall be the sole and exclusive remedy that the Stockholders and the Company shall have in the event of such Default and shall constitute a waiver of any and all other legal or equitable rights or remedies that any of the Stockholders or the Company may otherwise have as a result of Purchaser's Default, and that in consideration for the receipt of the LC as liquidated damages, neither the Company nor any of the Stockholders may obtain any further legal or equitable relief, including specific performance, to which it may otherwise have been entitled and Purchaser shall have no further Liability to the Company or any of the Stockholders as a result of such Default or the non-occurrence of Closing.

(b) If the Closing does not occur due to the nonfulfillment of any of the conditions in Article VI or for any other reason except Purchaser's Material Default in the performance of any of its obligations under this Agreement, neither the Company nor any of the Stockholders shall be entitled to the LC and, promptly after the termination of this Agreement, the LC shall be returned to Purchaser. In addition, the Company and each of the Stockholders acknowledge that Purchaser, a its option (to be exercised in its sole and absolute discretion), may elect to have the Agreement specifically performed by the Company and the Stockholders in addition to receipt of the LC. The Company and the Stockholders further acknowledge that any breach of this Agreement by either the Company or any of the Stockholders will cause irreparable damage and injury to Purchaser and that Purchaser will be entitled to injunctive relief in any court of competent jurisdiction without the necessity of posting any bond.

(c) It is agreed that time is of the essence in the performance and satisfaction of this Agreement and each of the conditions specified in Articles VI and VII of this Agreement are Material for purposes of this Agreement.

8.04 RISK OF LOSS. The Stockholders assume all risk of condemnation, destruction or Loss to the Company or any of the Subsidiaries due to fire or other casualty from the date of this Agreement until the Closing.

ARTICLE IX
DEFINITIONS

The following terms (in their singular and plural forms as appropriate) as used in this Agreement shall have the meanings set forth below unless the context requires otherwise:

"ACCOUNTS RECEIVABLE" means, as of any applicable date, all accounts receivable, notes receivable, and other monies due to the Company or any of the Subsidiaries for sales and deliveries of goods, performance of services and other business transactions (whether or not on the books of the Company or any of the Subsidiaries).

"AFFILIATE" of a Person means: (i) any Person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such Person; (ii) any officer, director, partner, employee, agent, or representative or direct or indirect beneficial or legal owner of any

10% or greater equity or voting interest of such Person (other than the limited partners of the Stockholders); (iii) any entity for which a Person described in (ii) above acts in any such capacity.

"AGREEMENT" means this Stock Purchase Agreement, including the Exhibits and Schedules delivered pursuant hereto or referred to herein, each of which is incorporated herein by reference.

"BALANCE SHEET" means initially, the consolidated balance sheet of the Company and each of the Subsidiaries as of September 28, 1997 and included in the Financial Statements and, subsequently, when delivered to Purchaser pursuant to Section 4.06, the consolidated audited balance sheet of the Company and each of the Subsidiaries as of December 28, 1997 and included in the Financial Statements.

"BALANCE SHEET DATE" means the date of the most recent Balance Sheet.

"BOARD OF DIRECTORS" means the Board of Directors of a Person that is a corporation.

"BUSINESS" means the Company's business conducted through the Subsidiaries, of owning and operating (i) the television station KOLN/TV, serving Lincoln, Nebraska, (ii) the television station KGIN-TV, serving Grand Island, Nebraska and (iii) the television station WEAU-TV serving Eau Claire and LaCrosse, Wisconsin.

"BUSINESS DAY" means a day other than a Saturday, a Sunday, a day on which banking institutions in the State of Georgia are authorized or obligated by law or required by executive order to be closed, or a day on which the New York Stock Exchange is closed.

"CERTIFICATE OF INCORPORATION" means the certificate of incorporation of a Person that is a corporation.

"CLOSING" means the consummation of the transactions contemplated by this Agreement.

"CLOSING DATE" means the fifth business day after issuance of the FCC Order as set forth in Section 4.15 and the satisfaction (or waiver) of all of the conditions set forth in Articles VI and VII, or such other date as the parties may agree in writing; provided that the Closing Date may be extended to September 1, 1998 by Purchaser as necessary to effectuate the tax-free like-kind exchange described in Section 4.16; provided, further, that the provisions of Section 4.16 shall continue to b in effect on the date of issuance of such FCC Order.

"CODE" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"COMMITMENTS" means the owner's title insurance policy commitments contained in Schedule 2.11.

"COMMON STOCK" means the $.01 par value per share common stock of the Company.

"COMPUTER SOFTWARE" means all computer programs, materials, tapes, source and object codes, and all prior and proposed versions, releases, modifications, updates, upgrades and enhancements thereto, as well as all documentation and listings related thereto used in the Business.

"CONTRACT" means any written or oral contract, agreement, understanding, lease, usufruct, license, plan, instrument, commitment, restriction, arrangement, obligation, undertaking, practice or authorization of any kind or character or other document to which any Person is a party or that is binding on any Person or its securities, assets or business.

"DATABASES" means databases in all forms, versions and media, together with prior and proposed updates, modifications and enhancements thereto, as well as all documentation and listings therefor used in the Business, other than Licenses.

"DEFAULT" means (1) a breach of, default under, or misrepresentation in or with respect to any Contract or License, (2) the occurrence of an event that with the passage of time or the giving of notice or both would constitute a breach of, default under, or misrepresentation in any Contract or License, or (3) the occurrence of an event that with or without the passage of time or the giving of notice or both would give rise to a right to terminate, change the terms of or renegotiate any Contract or License or to accelerate, increase, or impose any Liability under any Contract or License.

"EMPLOYEE BENEFIT PLAN" means collectively, each pension, retirement, profit-sharing, deferred compensation, stock option, employee stock ownership, severance pay, vacation, bonus or other incentive plan, any other written or unwritten employee program, arrangement, agreement or understanding, whether arrived at through collective bargaining or otherwise, any medical, vision, dental or other health plan, any life insurance plan, or any other employee benefit plan or fringe benefit plan, including, without limitation, any "employee benefit plan," as that term is defined in Section 3(3) of ERISA currently or previously adopted, maintained by, sponsored in whole or in part by, or contributed to by the Company, any of the Subsidiaries or any other ERISA Affiliate thereof or under which the Company, any of the Subsidiaries, any other ERISA Affiliate thereof has any Liability for the benefit of employees, retirees, dependents, spouses, directors, independent contractors, or other beneficiaries and under which employees, retirees, dependents, spouses, directors, independent contractors or other beneficiaries are eligible to participate. "Employee Benefit Plans" also means any plans, programs, agreements, arrangements or understandings previously maintained by, sponsored in whole or in part by, or contributed to by the Company, any of the Subsidiaries, or any other ERISA Affiliate thereof that could result in a Material Liability to the Company or any of the Subsidiaries, including but not limited to, any plan covered by or subject to Title IV of ERISA. Employee Benefit Plans include (but are not limited to) "employee benefit plans" as defined in Section 3(3) of ERISA and any other plan, fund, policy, program, practice, custom, understanding or arrangement providing compensation or other benefits to any current or former officer or employee or director or independent contractor of the Company, any of the Subsidiaries or any dependent or beneficiary thereof, maintained by the Company or any of the Subsidiaries or under which the Company or any of the Subsidiaries has any obligation or Liability, whether or not they are or are intended to be (i) covered or qualified under the Code, ERISA or any other applicable Law, (ii) written or oral, (iii) funding or unfunded, (iv) actual or contingent, or (v) generally available to any or all employees (or former employees) of the Company or any of the Subsidiaries (or their beneficiaries or dependents), including, without limitation, all incentive, bonus, deferred compensation, flexible spending accounts, cafeteria plans, vacation, holiday, medical, disability, share purchase or other similar plans, policies, programs, practices or arrangements.

"ENVIRONMENTAL LAWS" means all Laws relating to pollution or protection of the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata), including, without limitation, the Comprehensive Environmental Response Compensation and Liability Act, as amended, 42 U.S.C. 9601 et seq. ("CERCLA"), the Resource Conservation and Recovery Act, as amended, 42 U.S.C. 6901 et seq. ("RCRA"), and other Laws relating

to emissions, discharges, releases or threatened releases of any Hazardous Substance, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Substance.

"ENVIRONMENTAL LITIGATION" means any Litigation against the Company, any of the Subsidiaries, or the Business or the assets of the Company, or any of the Subsidiaries (including, without limitation, written notice or other written communication by any Person alleging potential Liability for investigatory costs, cleanup costs, private or governmental response or remedial costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based upon, or resulting from (i) any Environmental Matter or (ii) any circumstances or state of facts forming the basis of any Liability or alleged Liability under, or violation or alleged violation of, any Environmental Law.

"ENVIRONMENTAL MATTER" means any matter or circumstances related in any manner whatsoever to (i) the emission, discharge, disposal, release or threatened release of any Hazardous Substance into the environment, or (ii) the transportation, treatment, storage, recycling or other handling of any Hazardous Substance or (iii) the placement of structures or materials into waters of the United States, by, in each case, the Company, any of the Subsidiaries or any of their respective predecessors o (iv) the presence of any Hazardous Substance, including, but not limited to, asbestos, in any building, structure or workplace or on any of the Real Property.

"ENVIRONMENTAL REPORT" means collectively, the three independent Phase I environmental site assessment reports of the Company's and its Subsidiaries' properties and operations prepared for the Company and Purchaser by Montgomery Watson, each dated February, 1998.

"ERISA" means Employee Retirement Income Security Act of 1974, as amended.

"ERISA PLAN" means any Employee Benefit Plan which is an "employee pension benefit plan," as that term is defined in Section 3(2) of ERISA, or an "employee welfare benefit plan" as that term is defined in Section 3(1) of ERISA.

"FCC" means the Federal Communications Commission.

"FINANCIAL STATEMENTS" means (i) the consolidated audited balance sheets of the Company and each of the Subsidiaries as of December 29, 1996 and December 31, 1995 and, when delivered to Purchaser pursuant to Section 4.06, December 28, 1997 and the related statements of income and cash flows for the periods then ended and (ii) the consolidated unaudited balance sheets of the Company and each of the Subsidiaries as of the end of each fiscal quarter from December 30, 1996 through December 28, 1997 and the related statements of income for the months then ended, and (iii) the monthly financial statements provided to Purchaser pursuant to Section 4.06.

"GAAP" means generally accepted accounting principles as in effect in the United States consistently applied.

"GOVERNMENTAL AUTHORITY" means any federal, state, county, local, foreign or other governmental or public agency, instrumentality, commission, authority, board or body.

"HART-SCOTT ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C.A. ss. 18(a), as amended, and all Laws promulgated thereunder.

"HAZARDOUS SUBSTANCE" means (i) any hazardous substance, hazardous material, hazardous waste pollutants, contaminants, or toxic substance (as those terms are defined by any applicable Environmental Laws) and (ii) any petroleum, petroleum products, or oil.

"IMPROVEMENTS" means all buildings, structures, fixtures and other improvements included in the Real Property.

"INTELLECTUAL PROPERTY" means, with the exception of the Option Property, (i) patents and pending patent applications together with any and all continuations, divisions, reissues, extensions and renewals thereof, (ii) trade secrets, know-how, inventions, formulae and processes, whether trade secrets or not, (iii) trade names, trademarks, service marks, logos, assumed names, brand names and all registrations and applications therefor together with the goodwill of the business symbolized thereby, (iv) copyrights and any registrations and applications therefor, (v) technology rights and licenses, and (vi) Computer Software and all other intellectual property owned by, registered in the name of, or used in the business of a Person or in which a Person or its business has any interest.

"INVENTORY" means all inventories of raw materials, supplies, products, advertising materials, and other inventories.

"IRS" means the Internal Revenue Service of the United States of America.

"KNOWLEDGE" or "KNOWN" with respect to the Company, any of the Subsidiaries or any of the Stockholders, means collectively those facts that any of the Company, any of the Subsidiaries, any of its officers and employees listed on Exhibit IX hereto or Alfred C. Eckert, III, after due inquiry, knew or reasonably should have known.

"LAW" means any code, law, order, ordinance, regulation, rule, or statute of any Governmental Authority.

"LEASED PERSONAL PROPERTY" means all Personal Property that is not owned by the Company or any of the Subsidiaries that the Company or any of the Subsidiaries either uses or has the right to use.

"LEASED REAL PROPERTY" means all Real Property that is not owned in fee simple by the Company or any of the Subsidiaries that the Company or any of the Subsidiaries either occupies or uses or has the right to occupy or use.

"LIABILITY" means any direct or indirect, primary or secondary, liability, indebtedness, obligation, penalty, expense (including, without limitation, costs of investigation, collection and defense), claim, deficiency, guaranty or endorsement of or by any Person (other than endorsements of notes, bills and checks presented to banks for collection or deposit in the ordinary course of business) of any type, whether accrued, absolute, contingent, liquidated, unliquidated, matured, unmatured or otherwise.

"LICENSE" means any license, franchise, notice, permit, easement, right, certificate, authorization, approval or filing with any Governmental Authority or court to which any Person is a party or that is or may be binding on any Person or its securities, property or business.

"LIEN" means any mortgage, lien, security interest, pledge, hypothecation, encumbrance, restriction, reservation, encroachment, infringement, easement, conditional sale agreement, title retention, lease, right of occupancy or other security arrangement, defect of title, adverse right or interest, charge or claim of any nature whatsoever of, on, or with respect to any property or property interest.

"LITIGATION" means any action, administrative or other proceeding, arbitration, cause of action, claim, complaint, criminal prosecution, inquiry, hearing, investigation (governmental or otherwise), litigation, notice (written or oral) before any Governmental Authority or arbitration, mediation or similar tribunal by any Person alleging potential Liability or requesting information relating to or affecting the Company or any of the Subsidiaries, their respective assets (including, without limitation, Contracts relating to the Company or any of the Subsidiaries), the Business or the transactions contemplated by this Agreement.

"LOSS" means any and all direct or indirect demands, claims, payments, obligations, recoveries, deficiencies, fines, penalties, interest, assessments, actions, causes of action, suits, losses, diminution in the value of assets, damages, punitive, exemplary or consequential damages (including, but not limited to, lost income and profits and interruptions of business), liabilities, costs, expenses (including without limitation, (i) interest, penalties and reasonable attorneys' fees and expenses, (ii) attorneys' fees and expenses necessary to enforce rights to indemnification hereunder, and (iii) consultants' fees and other costs of defense or investigation), and interest on any amount payable to a Third Party as a result of the foregoing, whether accrued, absolute, contingent, known, unknown, or otherwise as of the Closing Date or thereafter.

"MATERIAL" or "MATERIALLY" shall be determined in light of the facts and circumstances of the matter in question; provided, however, that any specific monetary amount cited in this Agreement shall be deemed to determine materiality in that instance.

"MATERIAL ADVERSE CHANGE" or "MATERIAL ADVERSE EFFECT" means any Material adverse change in or effect on (i) the business, operations, assets, Liabilities, financial condition or results of operations of such Person, including, without limitation, any Material adverse change in the value of the Company or its Subsidiaries, taken as a whole, (ii) the ability of such party to consummate the transactions contemplated by this Agreement or any of the Other Agreements to which it is or will be a party, or (iii) the ability of such party to perform any of its obligations under this Agreement or any of the Other Agreements to which it is or will be a party, if such change or effect Materially impairs the ability of such party to perform its obligations hereunder or thereunder, taken as a whole. If any change, condition or event shall have an adverse effect or a reasonably likely adverse effect of less than $1,000,000, no Material Adverse Change or Material Adverse Effect will be deemed to have occurred. If any change, condition or event shall have an adverse effect or a reasonably likely adverse effect of $1,000,000 or more but less than $7,500,000, no Material Adverse Effect will be deemed to have occurred and the Stockholders shall have the option to either (i) cure such change, condition or event or (ii) reduce the Purchase Price by the amount of the adverse effect caused by such change, condition or event. If any change, condition or event shall have an adverse effect or a reasonably likely adverse effect of $7,500,000 or more, either Purchaser or the Stockholders may terminate this Agreement at their discretion. Neither a Material Adverse Change nor a Material Adverse Effect shall be deemed to result from an adverse change in general economic conditions, industry conditions or general conditions in the markets in which the Company operates. Further, notwithstanding the $1,000,000 threshold contained in the third sentence of this definition, the Stockholders shall cause the Company to use all reasonable efforts to promptly remedy any adverse change, condition or event that causes or is reasonably likely to cause any of the Company's stations to be or go off the air.

"OPTION PROPERTY" means all of the Personal Property subject to Lawrence A. Busse's option to purchase under that certain letter agreement dated the date hereof, 1998 between Mr. Busse and the Company, a correct and complete list of each item of Option Property is contained on Exhibit X.

"ORDER" means any decree, injunction, judgment, order, ruling, writ, quasi-judicial decision or award or administrative decision or award of any federal, state, local, foreign or other court, arbitrator, mediator, tribunal, administrative agency or Governmental Authority to which any Person is a party or that is or may be binding on any Person or its securities, assets or business (including, in the case of the FCC, a public notice or other written authorization).

"OTHER AGREEMENTS" means the agreements, documents, assignments and instruments to be executed and delivered by the Company or the Stockholders pursuant to this Agreement.

"OWNED REAL PROPERTY" means all Real Property other than Leased Real Property.

"PERMITTED LIENS" means (i) Liens for current real property Taxes not yet due and payable, (ii) non-monetary Liens that do not affect the value or use of any parcel of Real Property, (iii) Liens related to the Company's 11-5/8% Senior Secured Notes due 2000 referred to in Section 1.02 and (iv) all Special Exceptions (but not General Exceptions) to title contained in the Commitments.

"PERSON" means a natural person or any legal, commercial or governmental entity, such as, but not limited to, a business association, corporation, general partnership, joint venture, limited partnership, limited liability company, trust, or any person acting in a representative capacity.

"PERSONAL PROPERTY" means collectively and with the exception of the Option Property all of the personal property or interests therein owned, leased, used or controlled by the Company or any of the Subsidiaries including, without limitation, machinery, tools, equipment (including office equipment and supplies), furniture, furnishings, fixtures (including trade fixtures), vehicles, leasehold improvements, all other tangible personal property other than Inventory (which is specifically excluded from the Personal Property).

"PREFERRED STOCK" means the $.01 par value per share Series A preferred stock of the Company.

"PUC LAWS" means public utility commission laws, rules and regulations.

"PURCHASE PRICE" means the total consideration to be paid to the Stockholders by Purchaser for the purchase of the Stock pursuant to this Agreement and which shall be paid in accordance with Section 1.02 of this Agreement.

"REAL PROPERTY" means collectively all the real property or interests therein owned, leased, occupied, or used by the Company or any of the Subsidiaries as of the date of this Agreement, together with (i) all rights, easements, tenements, hereditaments, appurtenances, privileges, immunities, mineral rights and other benefits belonging or appertaining thereto which run with said real property and (ii) all right, title and interest, if any, of the Company or any of the Subsidiaries in and to (A) any land lying in the bed of any street, road, avenue, open or proposed, adjoining said real property, (B) any award made or to be made in lieu of the land described in the preceding clause (A), (C) any unpaid award for damage to said real property, and (D) all strips and rights-of-way abutting or adjoining said real property, if any. The

Real Property includes, without limitation, all buildings, structures, fixtures and other improvements located on the land described in the preceding sentence.

"REGISTRATION RIGHTS AGREEMENT" means that certain Registration Rights Agreement dated May 3, 1995 entered into by the Company and KOLN/KGIN, Inc., as amended.

"RELATED PERSON" means, with regard to any natural Person, its spouse, parent, sibling, child, aunt, uncle, niece, nephew, in-law, grandparent and grandchild (including by adoption) and any trustees or other fiduciaries for the benefit of such relatives.

"STOCK" means the Common Stock and the Preferred Stock.

"SUBSIDIARY" means any of WEAU License, Inc., a Delaware corporation, KOLN/KGIN, Inc., a Delaware corporation, and KOLN/KGIN License, Inc., a Delaware corporation.

"TAX" or "TAXES" means any federal, state, county, local, foreign and other taxes, assessments, charges, fees, and impositions, including interest and penalties thereon or with respect thereto, whether disputed or not, and including Liabilities relating to unclaimed property.

"TAX RETURNS" means all returns, reports, filings, declarations and statements relating to Taxes that are required to be filed, recorded, or deposited with any Governmental Authority, including any attachment thereto or amendment thereof.

"THIRD PARTY" or "THIRD PARTIES" means any Person that is not Purchaser, the Company, the Stockholders, the Subsidiaries or an Affiliate of any of the foregoing.

"UNDISCLOSED LIABILITIES" means any Liability that is not fully reflected or reserved against in the Financial Statements or fully disclosed in a Schedule to this Agreement.

ARTICLE X
MISCELLANEOUS

10.01 NOTICES.

(a) All notices, requests, demands and other communications hereunder shall be (i) delivered by hand, (ii) mailed by registered or certified mail, return receipt requested, first class postage prepaid and properly addressed, (iii) sent by national overnight courier service, or (iv) sent by facsimile, graphic scanning or other telegraphic communications equipment to the parties or their assignees, addressed as follows:

To the Company:

Busse Broadcasting Corporation
141 East Michigan Avenue
Suite 300
Kalamazoo, Michigan 49007
Attention: Mr. Lawrence A. Busse
Telephone: (616) 388-8019
Facsimile: (616) 388-6089

with copies to:	Winston & Strawn 35 West Wacker Drive Chicago, Illinois 60601-9703 Attention: Steven J. Gavin, Esquire Telephone: (312) 558-5600 Facsimile: (312) 558-5700
To the Stockholders:	SSP, Inc. c/o Greenwich Street Capital Partners, Inc. 388 Greenwich Street -- 36th Floor New York, New York 10013 Attention: Mr. Alfred C. Eckert, III Telephone: (212) 816-9506 Facsimile: (212) 816-0166
with copies to:	Cadwalader, Wickersham & Taft 100 Maiden Lane New York, New York 10038 Attn: Jonathan M. Wainwright, Esquire Telephone: (212) 504-6122 Facsimile: (212) 504-6666
and to:	Morgan, Stanley & Co. Incorporated 1585 Broadway -- 35th Floor New York, New York 10036 Attention: Mr. Michael F. Wyatt Telephone: (212) 761-4000 Facsimile: (212) 761-0501
To Purchaser:	Gray Communications Systems, Inc. 4370 Peachtree Road, N.E. Atlanta, Georgia 30319-3099 Attention: Mr. Robert S. Prather, Jr. Telephone: (404) 266-8333 Facsimile: (404) 261-9607

with copies to: Alston & Bird LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, Georgia 30309-3424
Attention: Stephen A. Opler, Esquire
Telephone: (404) 881-7693
Facsimile: (404) 881-4777

(b) All notices, requests, instructions or documents given to any party in accordance with this Section 10.01 shall be deemed to have been given (i) on the date of receipt if delivered by hand, overnight courier service or if sent by facsimile, graphic scanning or other telegraphic communications equipment or (ii) on the date three (3) business days after depositing with the United States Postal Service if mailed by United States registered or certified mail, return receipt requested, first class postage prepaid and properly addressed.

(c) Any party hereto may change its address specified for notices herein by designating a new address by notice in accordance with this Section 10.01.

10.02 ENTIRE AGREEMENT. This Agreement, the Schedules, the Exhibits and the Other Agreements constitute the entire agreement between the parties relating to the subject matter hereof and thereof and supersede all prior oral and written, and all contemporaneous oral negotiations, discussions, writings and agreements relating to the subject matter of this Agreement.

10.03 MODIFICATIONS, AMENDMENTS AND WAIVERS. The failure or delay of any party at any time or times to require performance of any provision of this Agreement shall in no manner affect its right to enforce that provision. No single or partial waiver by any party of any condition of this Agreement, or the breach of any term, agreement or covenant or the inaccuracy of any representation or warranty of this Agreement, whether by conduct or otherwise, in any one or more instances shall be construed or deemed to be a further or continuing waiver of any such condition, breach or inaccuracy or a waiver of any other condition, breach or inaccuracy.

10.04 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto, and their respective estates, successors, legal or personal representatives, heirs, distributees, designees and assigns, but no assignment shall relieve any party of the obligations hereunder. This Agreement or any portion thereof cannot be assigned by any party without the prior written consent of the other parties hereto; provided, however, that Purchaser may assign this Agreement with the prior written consent of the Company and the Stockholders, to an Affiliate of Purchaser; provided, further, such assignment shall not relieve Purchaser of its obligations hereunder. With respect to such assignments, all representations, warranties, covenants and indemnification rights shall be binding upon, and inure to the benefit of, the assignee or assignees as if such representations, warranties, covenants and indemnification rights were made directly between the original parties to this Agreement.

10.05 TABLE OF CONTENTS; CAPTIONS; REFERENCES. The table of contents and the captions and other headings contained in this Agreement as to the contents of particular articles, sections, paragraphs or other subdivisions contained herein are inserted for convenience of reference only and are in no way to be construed as part of this Agreement or as limitations on the scope of the particular articles, sections, paragraphs or other subdivisions to which they refer and shall not affect the interpretation or

meaning of this Agreement. All references in this Agreement to "Section" or "Article" shall be deemed to be references to a Section or Article of this Agreement.

10.06 GOVERNING LAW. This Agreement shall be controlled, construed and enforced in accordance with the substantive Laws of the State of New York, without respect to the Laws related to choice or conflicts of Laws.

10.07 PRONOUNS. All pronouns used herein shall be deemed to refer to the masculine, feminine or neuter gender as the context requires.

10.08 SEVERABILITY. Should any one or more of the provisions of this Agreement be determined to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as practicable to that of the invalid, illegal or unenforceable provisions.

10.09 REMEDIES NOT EXCLUSIVE. Except for the liquidated damages provided for in Section 8.03(a), no remedy conferred by any of the specific provisions of this Agreement is intended to be, nor shall be, exclusive of any other remedy available at law, in equity or otherwise.

10.10 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original; but all of such counterparts shall together constitute one and the same instrument.

10.11 INTERPRETATIONS. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Purchaser, the Company, or the Stockholders whether under any rule of construction or otherwise. No party to this Agreement shall be considered the draftsman. On the contrary, this Agreement has been reviewed, negotiated and accepted by all parties and their attorneys and shall be construed and interpreted according to the ordinary meaning of the words used so as fairly to accomplish the purposes and intentions of all parties hereto.

10.12 EXCLUSIVE REMEDY.. The parties acknowledge and agree that this Agreement shall provide the exclusive remedies of Purchaser, the Stockholders, the Company and the Subsidiaries with respect to the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, on and after the Closing, Purchaser, the Stockholders, the Company and the Subsidiaries hereby waive any statutory, equitable or common law rights or remedies relating to any environmental health and safety matters, including without limitation, any such matters arising under any Environmental , Health and Safety Requirements, the Comprehensive Environmental Response, Compensation and Liability Act or any analogous state law.

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the Company, each of the Stockholders and Purchaser have duly executed this Agreement under seal as of the date first above written.

THE COMPANY

BUSSE BROADCASTING CORPORATION

By: /s/ James C. Ryan
Name: James C. Ryan
Title: Treasurer

THE STOCKHOLDERS

SOUTH STREET CORPORATE RECOVERY FUND I, L.P.

By: SSP Advisors, L.P., its general partner

By: SSP, Inc., its general partner

By: /s/ Alfred C. Eckert III
Name: Alfred C. Eckert III
Title: President

GREYCLIFF LEVERAGED FUND 1993, L.P.

By: SSP Partners, L.P., its general partner

By: SSP, Inc., its general partner

By: /s/ Alfred C. Eckert III
Name: Alfred C. Eckert III
Title: President

SOUTH STREET LEVERAGED CORPORATE RECOVERY FUND, L.P.

By: SSP Partners, L.P., its general partner

By: SSP, Inc., its general partner

By: /s/ Alfred C. Eckert III
Name: Alfred C. Eckert III
Title: President

SOUTH STREET CORPORATE RECOVERY FUND I
(INTERNATIONAL) L.P.

By: Greycliff Partners, its authorized agent

By: /s/ Alfred C. Eckert III
Name: Alfred C. Eckert III
Title: Partner

PURCHASER

GRAY COMMUNICATIONS SYSTEMS, INC.

By: /s/ Robert S. Prather, Jr.
Name Robert S. Prather, Jr.
Title: Executive Vice President

EXHIBIT 21

LIST OF SUBSIDIARIES
GRAY COMMUNICATIONS SYSTEMS INC.

Name of Subsidiary	Jurisdiction of Incorporation
The Albany Herald Publishing Co.	Georgia
The Rockdale Citizen Publishing Co.	Georgia
The Southwest Georgia Shopper, Inc.	Georgia
WALB-TV, Inc.	Georgia
WVLT-TV, Inc.	Georgia
WRDW-TV, Inc.	Georgia
WITN-TV, Inc	Georgia
Gray Kentucky Television, Inc.	Georgia
WALB Licensee Corp.	Delaware
WJHG Licensee Corp.	Delaware
WCTV Licensee Corp.	Delaware
WVLT Licensee Corp.	Delaware
WRDW Licensee Corp.	Delaware
WITN Licensee Corp.	Delaware
WKYT Licensee Corp.	Delaware
WYMT Licensee Corp.	Delaware
Gray Television Management, Inc.	Delaware
KTVE, Inc.	Arkansas
Porta-Phone Licensee Corp.	Delaware
Gray Transportation Company, Inc.	Georgia
Gray Florida Holdings, Inc.	Georgia

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-84656 and Form S-8 No. 333-17773) pertaining to the Gray Communications Systems, Inc. Capital Accumulation Plan, in the Registration Statement (Form S-8 No. 333-15711) pertaining to the Gray Communications Systems, Inc. 1992 Long-Term Incentive Plan and in the Registration Statement (Form S-8 No. 333-42377) pertaining to the Gray Communications Systems, Inc. Non-Employee Directors Stock Option Plan of our report dated January 27, 1998, except for the Pending Acquisition of Note C, as to which the date is February 13, 1998, with respect to the consolidated financial statements and schedule of Gray Communications Systems, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1997.

Ernst & Young LLP

Atlanta, Georgia
February 27, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
DECEMBER 31, 1997 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF GRAY
COMMUNICATIONS SYSTEMS INC., AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO
SUCH FINANCIAL STATEMENTS.

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
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240,000
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(1,402,458)
(0.36)
(0.36)

EPS-BASIC