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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002.

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________ .

COMMISSION FILE NUMBER 1-13796

GRAY COMMUNICATIONS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

4370 PEACHTREE ROAD, NE, ATLANTA, GEORGIA 30319

(Address of principal executive offices)
(Zip code)

(404) 504-9828

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report.)

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

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

CLASS A COMMON STOCK, (NO PAR VALUE)	CLASS B COMMON STOCK, (NO PAR VALUE)
6,848,467 SHARES AS OF MAY 14, 2002	8,813,017 SHARES AS OF MAY 14, 2002

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GRAY COMMUNICATIONS SYSTEMS, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRAY COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2002	DECEMBER 31, 2001
	(UNAUDITED)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 3,165,379	$ 557,521
Restricted cash for redemption of long-term debt	-0-	168,557,417
Trade accounts receivable, less allowance for doubtful accounts of $649,000 and $743,000, respectively	24,926,846	29,722,141
Recoverable income taxes	987,331	552,177
Inventories	969,943	763,430
Current portion of program broadcast rights	2,564,406	3,809,238
Other current assets	991,862	742,150
Total current assets	33,605,767	204,704,074
Property and equipment:		
Land	4,899,829	4,905,121
Buildings and improvements	16,932,194	16,904,976
Equipment	114,543,965	113,018,560
	136,375,988	134,828,657
Allowance for depreciation	(75,003,348)	(71,412,314)
	61,372,640	63,416,343
Deferred loan costs, net	11,333,958	14,305,495
Licenses and network affiliation agreements	403,794,201	424,384,811
Goodwill	53,150,505	72,025,145
Consulting and noncompete agreements	794,814	901,216
Other	14,549,503	14,599,894
	$ 578,601,388	$ 794,336,978

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	MARCH 31, 2002 (UNAUDITED)	DECEMBER 31, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Trade accounts payable	$ 3,798,498	$ 7,632,778
Employee compensation and benefits	5,985,619	6,002,892
Accrued expenses	1,857,252	1,588,302
Accrued interest	7,669,877	7,872,585
Current portion of program broadcast obligations	2,393,229	3,655,881
Deferred revenue	3,278,279	2,783,069
Unrealized loss on derivatives	1,192,000	1,581,000
Current portion of long-term debt	456,000	155,262,277
Total current liabilities	26,630,754	186,378,784
Long-term debt, less current portion	390,992,008	396,182,025
Program broadcast obligations, less current portion	575,890	619,320
Supplemental employee benefits	472,082	397,720
Deferred income taxes	54,357,563	66,790,563
Other	1,695,424	1,772,989
	474,723,721	652,141,401
Commitments and contingencies		
Stockholders' equity:		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued and outstanding 861 shares, respectively ($8,605,788 aggregate liquidation value, respectively)	4,636,663	4,636,663
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 7,961,574 shares, respectively	20,172,959	20,172,959
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 8,808,552 and 8,792,227 shares, respectively	117,828,691	117,634,928
Retained earnings	(30,421,928)	8,089,745
	112,216,385	150,534,295
Treasury Stock at cost, Class A Common Stock, 1,113,107 shares, respectively	(8,338,718)	(8,338,718)
	103,877,667	142,195,577
	$ 578,601,388	$ 794,336,978

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31, 2002	2001
Operating revenues:		
Broadcasting (net of agency commissions)	$ 25,452,470	$ 25,042,113
Publishing	10,143,051	9,739,846
Paging	2,009,245	2,146,610
	37,604,766	36,928,569
Expenses:		
Broadcasting	15,481,312	16,307,988
Publishing	7,650,608	7,902,104
Paging	1,383,020	1,435,663
Corporate and administrative	1,000,026	944,407
Depreciation and amortization	3,733,003	7,850,672
	29,247,969	34,440,834
Operating income	8,356,797	2,487,735
Miscellaneous income, net	37,936	70,933
Appreciation (depreciation) in value of derivatives, net	389,000	(785,442)
	8,783,733	1,773,226
Interest expense	8,964,710	9,250,952
LOSS BEFORE INCOME TAXES, EXTRAORDINARY CHARGE AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(180,977)	(7,477,726)
Income tax benefit	(45,800)	(2,450,000)
NET LOSS BEFORE EXTRAORDINARY CHARGE AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(135,177)	(5,027,726)
Extraordinary charge on extinguishment of debt, net of income tax benefit of $3,957,800	(7,317,517)	-0-
NET LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(7,452,694)	(5,027,726)
Cumulative effect of accounting change, net of income tax benefit of $8,873,400	(30,591,800)	-0-
NET LOSS	(38,044,494)	(5,027,726)
Preferred dividends	154,087	154,087
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (38,198,581)	$ (5,181,813)
Basic and diluted per share information:		
Net loss before extraordinary charge and cumulative effect of accounting change	$ (0.01)	$ (0.32)
Extraordinary charge on extinguishment of debt, net of income tax benefit	(0.47)	(0.00)
Cumulative effect of accounting change, net of income tax benefit	(1.95)	(0.00)
Preferred dividends	(0.01)	(0.01)
Net loss available to common stockholders	$ (2.44)	$ (0.33)
Weighted average shares outstanding	15,646,712	15,571,473

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK		
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	RETAINED EARNINGS
Balance at December 31, 2001	861	$4,636,663	7,961,574	$20,172,959	8,792,227	$117,634,928	8,089,745
Net loss for the three months ended March 31, 2002	-0-	-0-	-0-	-0-	-0-	-0-	(38,044,494)
Common Stock cash dividends ($0.02) per share	-0-	-0-	-0-	-0-	-0-	-0-	(313,092)
Preferred Stock dividends	-0-	-0-	-0-	-0-	-0-	-0-	(154,087)
Issuance of Common Stock: 401(k) plan	-0-	-0-	-0-	-0-	16,325	193,763	-0-
Balance at March 31, 2002	861	$4,636,663	7,961,574	$20,172,959	8,808,552	$117,828,691	$(30,421,928)

	CLASS A TREASURY STOCK		
	SHARES	AMOUNT	TOTAL
Balance at December 31, 2001	(1,113,107)	$(8,338,718)	$142,195,577
Net loss for the three months ended March 31, 2002	-0-	-0-	(38,044,494)
Common Stock cash dividends ($0.02) per share	-0-	-0-	(313,092)
Preferred Stock dividends	-0-	-0-	(154,087)
Issuance of Common Stock: 401(k) plan	-0-	-0-	193,763
Balance at March 31, 2002	(1,113,107)	$(8,338,718)	$103,877,667

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Operating activities		
Net loss	$ (38,044,494)	$ (5,027,726)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cumulative effect of accounting change	30,591,800	-0-
Amortization of bond discount	36,045	-0-
Depreciation	3,626,823	4,270,780
Amortization of intangible assets	106,180	3,579,892
Amortization of deferred loan costs	352,231	385,491
Amortization of program broadcast rights	1,320,461	1,352,940
Write-off of loan acquisition costs related to debt extinguished	3,030,266	-0-
Payments for program broadcast rights	(1,321,567)	(1,352,820)
Supplemental employee benefits	(22,661)	(82,548)
Common stock contributed to 401(k) Plan	193,763	203,768
(Appreciation) depreciation in value of derivatives, net	(389,000)	785,442
Deferred income taxes	(3,559,550)	(2,552,000)
Gain on disposal of assets	(15,715)	(15,786)
Changes in operating assets and liabilities:		
Receivables, inventories and other current assets	3,903,916	5,472,603
Accounts payable and other current liabilities	457,038	(664,266)
Net cash provided by operating activities	265,536	6,355,770
Investing activities		
Restricted cash for redemption of long-term debt	168,557,417	-0-
Purchases of property and equipment	(5,243,855)	(675,960)
Other	(60,762)	30,094
Net cash provided by (used in) investing activities	163,252,800	(645,866)
Financing activities		
Dividends paid	(467,179)	(465,991)
Deferred loan costs	(410,960)	-0-
Proceeds from issuance of common stock	-0-	519,858
Proceeds from sale of treasury stock	-0-	166,917
Proceeds from borrowings of long-term debt	5,272,346	4,950,000
Payments on long-term debt	(165,304,685)	(11,990,940)
Net cash used in financing activities	(160,910,478)	(6,820,156)
Increase (decrease) in cash and cash equivalents	2,607,858	(1,110,252)
Cash and cash equivalents at beginning of period	557,521	2,214,838
Cash and cash equivalents at end of period	$ 3,165,379	$ 1,104,586

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Gray Communications Systems, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Accounting for Derivatives

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended ("SFAS 133"). SFAS 133 provides a comprehensive standard for the recognition and measurement of derivatives and hedging activities. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes "special accounting" for the different types of hedges. Changes in the fair value of derivatives that do not meet the hedged criteria are included in earnings in the same period of the change.

In 1999, the Company entered into an interest rate swap agreement that is designated as a hedge against fluctuations in interest expense resulting from a portion of its variable rate debt. Due to the terms of the interest rate swap agreement, it does not qualify for hedge accounting under SFAS 133. Therefore, the changes in the fair value of the interest rate swap agreement are recorded in the Company's earnings as income or expense in the period in which the change in value occurs. During the three months ended March 31, 2002, the estimated liability associated with the interest rate swap agreement decreased and the Company recognized appreciation in the value of its derivative of $389,000. As a result of the adoption of SFAS 133 and the general decrease in market interest rates during the quarter ended March 31, 2001, the estimated liability associated with the interest rate swap agreement increased and the Company recognized depreciation in the value of its derivative of $785,442.

Earnings Per Share

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("EPS"). The weighted average number of shares used in computing basic and diluted loss per share was 15,646,712, and 15,571,473 in the three month periods ended March 31, 2002 and 2001, respectively. Dilutive securities of 230,487 and 790,961 are not included in the calculation of diluted EPS in the three month periods ending March 31, 2002 and 2001, respectively, because these securities would have an antidilutive effect.

Implementation of New Accounting Principle

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting and requiring companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, goodwill and intangible assets deemed to have an indefinite useful life will be subject to an annual review for impairment. The new standards were effective for the Company on January 1, 2002. Upon adoption of SFAS 142, the Company recorded a one-time, non-cash charge of approximately $39.5 million ($30.6 million after income taxes) to reduce the carrying value of its goodwill, licenses and network affiliation agreements. Such charge is reflected as a cumulative effect of an accounting change in the accompanying condensed consolidated statement of operations. For additional discussion on the impact of adopting SFAS 142, see Note D.

NOTE A--BASIS OF PRESENTATION (CONTINUED)

Reclassifications

Certain prior year amounts in the accompanying condensed consolidated financial statements have been reclassified to conform with the 2002 presentation.

NOTE B--BUSINESS ACQUISITION

On April 1, 2002, the Company entered into a Letter of Intent to acquire Stations Holding Company, Inc., the parent company of Benedek Broadcasting Corporation ("Benedek") in a transaction valued at approximately $500 million. The acquisition is subject to execution of a definitive agreement, which the companies expect to execute soon, as well as approval by the Federal Communications Commission of the transfer of control of Benedek's television licenses. The transaction is also subject to approval of the Delaware bankruptcy court with jurisdiction over the reorganization of Stations Holding Company, Inc. Management continues to believe that the transaction will close by the fourth quarter of 2002.

The Company intends to finance the acquisition by issuing a combination of debt and equity securities. The Company is considering, among other alternatives, raising the equity financing through a secondary public offering of the Company's Common Stock.

NOTE C--LONG-TERM DEBT

On December 21, 2001, the Company completed its sale of $180 million aggregate principal amount of Senior Subordinated Notes due 2011 (the "9 1/4% Notes"). On this same date, the Company instructed the trustee for the 10 5/8% Senior Subordinated Notes (the "10 5/8% Notes") to commence the redemption, in full, of the remaining 10 5/8% Notes outstanding. Gray deposited cash of approximately $168.6 million with the 10 5/8% Notes' trustee, to redeem the aggregate principal amount of the 10 5/8% Notes outstanding of $155.2 million and to fund associated premium costs of $8.2 million, accrued interest of $3.7 million and certain other related expenses of $1.5 million. This cash was funded from the net proceeds of the 9 1/4% Notes and was included in the consolidated balance sheet at December 31, 2001 as "restricted cash for redemption of long-term debt". The redemption was completed on January 22, 2002 and all obligations associated with the 10 5/8% Notes as well as the rights associated with the restricted cash were extinguished on that date. The Company recorded an extraordinary charge of approximately $11.3 million ($7.3 million after income tax) in the quarter ended March 31, 2002 in connection with this early extinguishment of debt.

At March 31, 2002, the balance outstanding and the balance available under the Company's bank loan agreement were $212.5 million and $37.5 million, respectively, and the interest rate on the balance outstanding was 5.3%.

NOTE D--GOODWILL AND INTANGIBLE ASSETS

As discussed in Note A, in January 2002, the Company adopted SFAS 142, which requires companies to discontinue amortizing goodwill and certain intangible assets with indefinite useful lives. Instead, SFAS 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS 142 and annually thereafter. The Company will perform its annual impairment review during the fourth quarter of each year, commencing in the fourth quarter of 2002. Other intangible assets will continue to be amortized over their useful lives.

Under SFAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. As of January 1, 2002, the Company performed the first of the required impairment tests of goodwill and indefinite lived intangible assets. Under SFAS 142, the annual impairment tests are performed at the lowest level for which there are identifiable cash flows. As a result of implementing SFAS 142 and the required impairment tests at January 1, 2002, the Company recognized a non-cash impairment of goodwill and other

NOTE D--GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

intangible assets of $39.5 million ($30.6 million net of income taxes). Such charge is reflected as a cumulative effect of an accounting change in the accompanying condensed consolidated statement of operations. In calculating the impairment charge, the fair value of the reporting units underlying the segments were estimated using a discounted cash flow methodology.

The Company expects to receive future benefits from previously acquired goodwill and licenses over an indefinite period of time. Upon adoption of SFAS 142 on January 1, 2002, the Company stopped amortizing these assets. Amortization of these assets totaled $3.5 million ($2.6 million after income taxes) for the quarter ended March 31, 2001.

A summary of changes in the Company's goodwill and other intangible assets during the quarter ended March 31, 2002, by business segment is as follows (in thousands):

	DECEMBER 31, 2001	IMPAIRMENTS	AMORTIZATION	MARCH 31, 2002
Goodwill:				
Broadcasting	$ 55,241	$(18,874)	$ -0-	$ 36,367
Publishing	16,779	-0-	-0-	16,779
Paging	5	-0-	-0-	5
	$ 72,025	$(18,874)	$ -0-	$ 53,151
Licenses and network affiliation agreements:				
Broadcasting	$ 407,592	$(10,291)	$ -0-	$397,301
Paging	16,793	(10,300)	-0-	6,493
	$ 424,385	$(20,591)	$ -0-	$403,794
Consulting and noncompete agreements:				
Publishing	$ 901	$ -0-	$(106)	$ 795
Total intangible assets net of accumulated amortization	$ 497,311	$(39,465)	$(106)	$457,740

As of March 31, 2002 and December 31, 2001, the Company's intangible assets and related accumulated amortization consisted of the following (in thousands):

	AS OF MARCH 31, 2002			AS OF DECEMBER 31, 2001		
	GROSS	ACCUMULATED AMORTIZATION	NET	GROSS	ACCUMULATED AMORTIZATION	NET
Intangible assets not subject to amortization:						
Licenses and network affiliation agreements	$ 454,246	$ (50,452)	$403,794	$ 474,836	$ (50,451)	$424,385
Goodwill	59,441	(6,290)	53,151	78,315	(6,290)	72,025
	$ 513,687	$ (56,742)	$456,945	$ 553,151	$ (56,741)	$496,410
Intangible assets subject to amortization:						
Consulting and noncompete agreements	$ 3,105	$ (2,310)	$ 795	$ 3,105	$ (2,204)	$ 901
Total intangibles	$ 516,792	$ (59,052)	$457,740	$ 556,256	$ (58,945)	$497,311

NOTE D--GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The Company recorded amortization expense of $106,000 during the first quarter of 2002 compared to $122,000 on a pro forma basis during the first quarter of 2001. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for the succeeding 5 years are as follows: 2002: $426,607; 2003: $425,600; and 2004: $50,000. As acquisitions and dispositions occur in the future, these amounts may vary.

The results for the quarter ended March 31, 2001 on a historical basis do not reflect the provisions of SFAS 142. Had the Company adopted SFAS 142 on January 1, 2001, the historical amounts would have been changed to the adjusted amounts as indicated in the table below (in thousands except per share data):

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
Reported net loss before extraordinary charge and cumulative effect of accounting change	$ (135)	$ (5,028)
Elimination of amortization of goodwill, net of income tax	-0-	437
Elimination of amortization of licenses and network affiliation agreements, net of income tax	-0-	2,190
Adjusted net loss before extraordinary charge and cumulative effect of accounting change	$ (135)	$ (2,401)
Basic and diluted per share information:		
Net loss before extraordinary charge and cumulative effect of accounting change	(0.01)	(0.32)
Elimination of amortization of goodwill, net of income tax	(0.00)	0.03
Elimination of amortization of licenses and network affiliation agreements, net of income tax	(0.00)	0.14
Adjusted net loss before extraordinary charge and cumulative effect of accounting change	$ (0.01)	$ (0.15)

NOTE E--INFORMATION ON BUSINESS SEGMENTS

The Company operates in three business segments: broadcasting, publishing and paging. The broadcasting segment operates 13 television stations located in the southern and mid-western United States. The publishing segment operates four daily newspapers located in Georgia and Indiana. 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):

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
Operating revenues:		
Broadcasting	$ 25,453	$ 25,042
Publishing	10,143	9,740
Paging	2,009	2,147
	$ 37,605	$ 36,929

NOTE E--INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
Operating income:		
Broadcasting	$ 6,270	$ 1,369
Publishing	1,785	969
Paging	302	150
Total operating income	8,357	2,488

Miscellaneous income, net	38	71
Appreciation (depreciation) in value of derivatives, net	389	(786)
Interest expense	(8,965)	(9,251)
Loss before income taxes	$ (181)	$ (7,478)
	========	========
Media Cash Flow:		
Broadcasting	$ 10,101	$ 8,875
Publishing	2,535	1,877
Paging	638	723
	--------	--------
	$ 13,274	$ 11,475
	========	========
Media Cash Flow reconciliation:		
Operating income	$ 8,357	$ 2,488
Add:		
Amortization of program broadcast rights	1,321	1,353
Depreciation and amortization	3,733	7,851
Corporate overhead	1,000	944
Non-cash compensation and contributions to the Company's 401(k) plan, paid in common stock	185	192
Less:		
Payments for program broadcast obligations	(1,322)	(1,353)
	--------	--------
Media Cash Flow	$ 13,274	$ 11,475
	========	========

Operating income is total operating revenues less operating expenses, excluding miscellaneous income and expense (net), appreciation (depreciation)in value of derivatives, net and interest. Corporate and administrative expenses are allocated to operating income based on net segment revenues.

NOTE F--PREFERRED STOCK

On April 22, 2002, the Company issued $40 million (4,000 shares) of redeemable and convertible preferred stock to a group of private investors. The preferred stock was designated as Series C Preferred Stock and has a liquidation value of $10,000 per share.

The Series C Preferred Stock is convertible into the Company's Class B Common Stock at a conversion price of $14.39 per share. The Series C Preferred Stock will be redeemable at the Company's option on or after April 22, 2007 and will be subject to mandatory redemption on April 22, 2012 at liquidation value. Dividends on the Series C Preferred Stock will accrue at 8% per annum until April 22, 2009 after which the dividend rate shall be 8.5% per annum. Dividends, when declared by the Company's board of directors may be paid at the Company's option in cash or additional shares of Series C Preferred Stock.

As part of the transaction, holders of the Company's Series A and Series B Preferred Stock have exchanged all of the outstanding shares of each respective series, an aggregate fair value of approximately $8.6 million, for an equal number of shares of the Series C Preferred Stock. The excess of the $8.6 million price to redeem the Series A

NOTE F--PREFERRED STOCK (CONTINUED)

and Series B Preferred Stock over its carrying value of $4.6 million was charged to retained earnings upon redemption in April 2002. Upon closing this transaction, the Series C Preferred Stock is the only currently outstanding preferred stock of the Company.

Net cash proceeds approximated $30.5 million, after transaction fees and expenses and excluding the value of the Series A and Series B Preferred Stock exchanged into the Series C Preferred Stock. The Company used the net cash proceeds to repay all current outstanding borrowings of $13.5 million under the Company's revolving credit facility and intends to use the remaining net cash proceeds for other general corporate purposes.

NOTE G--INCOME TAXES

The Internal Revenue Service (the "IRS") is auditing the Company's federal tax return for the year ended December 31, 1996. In conjunction with this examination, the Company extended the time period that the IRS has to audit the Company's federal tax returns for the 1996 and 1997 tax years until December 31, 2001.

In October 2001, the Company received a notice of deficiency from the IRS associated with its audit of the Company's 1996 federal income tax return. The IRS alleges in the notice that the Company owes approximately $12.1 million of tax plus interest and penalties stemming from certain acquisition related transactions, which occurred in 1996. Additionally, if the IRS were successful in its claims, the Company would be required to account for these acquisition transactions as stock purchases instead of asset purchases which would significantly lower the tax basis in the assets acquired. The Company believes the IRS claims are without merit and on January 18, 2002 filed a petition to contest the matter in United States Tax Court. The Company cannot predict when the tax court will conclude its ruling on this matter.

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

RESULTS OF OPERATIONS

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 unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere herein.

General

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 and other political advocacy groups, which spending typically is heaviest during the fourth quarter.

Broadcasting, Publishing and Paging Revenues

Set forth below are the principal types of broadcasting, publishing and paging revenues earned by the Company's broadcasting, publishing and paging operations for the periods indicated and the percentage contribution of each to the Company's total revenues (dollars in thousands):

	THREE MONTHS ENDED MARCH 31,			
	2002		2001	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
BROADCASTING NET REVENUES:				
Local	$15,034	40.0%	$ 14,699	39.8%
National	7,122	18.9	6,867	18.6
Network compensation	1,273	3.4	1,726	4.7
Political	760	2.0	31	0.1
Production and other	1,264	3.4	1,719	4.6
	$25,453	67.7%	$ 25,042	67.8%
PUBLISHING NET REVENUES:				
Retail	$ 4,873	13.0%	$ 4,555	12.3%
Classified	2,999	8.0	2,998	8.1
Circulation	2,012	5.3	1,875	5.1
Other	259	0.7	312	0.9
	$10,143	27.0%	$ 9,740	26.4%
PAGING NET REVENUES:				
Paging lease, sales and service	$ 2,009	5.3%	$ 2,147	5.8%
TOTAL	$37,605	100.0%	$ 36,929	100.0%

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Revenues. Total revenues for the three months ended March 31, 2002 increased $676,000, or 1.8%, over the same period of the prior year, to $37.6 million from $36.9 million. This increase was primarily attributable to the broadcasting and publishing operations.

Broadcasting revenues increased $410,000, or 1.6%, from the same period of the prior year, to $25.4 million from $25.0 million. This increase in broadcasting revenues reflects the cyclical increase in political revenue. In the first quarter of 2002, the Company had revenues from political advertising of $760,000 compared to $31,000 during the first quarter of 2001. Local advertising revenue increased $335,000, or 2.3%, from the same period of the prior year, to $15.0 million from $14.7 million. National advertising revenue increased $255,000, or 3.7%, from the same period of the prior year to $7.1 million from $6.9 million. These increases in advertising revenues are due in part to an improving economy. The increases in broadcasting revenue were partially offset by a decrease in network compensation and production and other revenue. Network compensation decreased $453,000, or 26.2%, from the same period of the prior year, to $1.3 million from $1.7 million. The decrease in network compensation reflected the ongoing phase out of network compensation at certain of our television stations. Production and other revenue decreased $455,000, or 26.5%, in the current quarter as compared to that of the prior year, to $1.3 million from $1.7 million.

Publishing revenues increased $403,000, or 4.1%, from the same period of the prior year, to $10.1 million from $9.7 million. This increase was due primarily to an increase in revenues from retail advertising and circulation revenues. Retail advertising revenue increased $318,000, or 7.0%, in the current quarter as compared to the same quarter of the prior year, to $4.9 million from $4.6 million due to average retail price increases. Classified advertising revenue remained consistent at $3.0 million for the first quarter of 2002. Circulation revenue increased $137,000, or 7.3%, from the same period of the prior year, to $2.0 million from $1.9 million. This increase was due primarily to subscription price increases.

Paging revenues decreased $137,000, or 6.4%, from the same period of the prior year, to $2.0 million from $2.1 million. The decrease was due primarily to price competition and a reduction of units in service. The Company had approximately 72,000 pagers and 88,000 pagers in service at March 31, 2002 and 2001, respectively.

Operating expenses. Operating expenses for the three months ended March 31, 2002 decreased $5.2 million, or 15.1%, from the same period of the prior year, to $29.2 million from $34.4 million, due primarily to the reduction in amortization of intangibles, lower depreciation expense and decreased broadcasting expenses.

Broadcasting expenses for the three months ended March 31, 2002 decreased $827,000, or 5.1%, from the same period of the prior year, to $15.5 million from $16.3 million. This decrease resulted primarily from lower employee compensation costs associated with reduced headcount and lower fringe benefit costs, promotional costs and bad debt charges.

Publishing expenses for the three months ended March 31, 2002 decreased $251,000, or 3.2%, from the same period of the prior year, to $7.7 million from $7.9 million. This decrease was the result of reduced employee-related compensation costs, lower newsprint costs resulting from a decline in newsprint prices and decreased promotional spending, partially offset by increased bad debt charges.

Paging expenses for the three months ended March 31, 2002 decreased $53,000, or 3.7%, from the same period of the prior year, to $1.4 million.

Corporate and administrative expenses for the three months ended March 31, 2002 increased $56,000, or 5.9%, from the same period of the prior year to $1.0 million from $944,000 due to higher payroll-related costs.

Depreciation of property and equipment and amortization of intangible assets was $3.7 million for the three months ended March 31, 2002, as compared to $7.9 million for the same period of the prior year, a decrease of $4.1 million, or 52.4%. Depreciation of property and equipment decreased $645,000 or 15.1% from the first quarter of the prior year. This decrease can be attributed to certain assets becoming fully depreciated in the fourth quarter of 2001. Effective January 1, 2002, the Company implemented the Statement of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under these new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with these standards. In accordance with these standards, amortization of intangibles decreased $3.5 million or 97.0% from the first quarter of the prior year. Amortization expense of $3.5 million was recorded in the three months ended March 31, 2001 for goodwill and other intangibles that are no longer being amortized in the three months ended March 31, 2002.

Miscellaneous income. Miscellaneous income for the three months ended March 31, 2002 was $38,000 compared to $71,000 for the three months ended March 31, 2001. The decrease in miscellaneous income can be attributed to a reduction in interest income associated with overnight cash investments and interest received on a state tax refund in the first quarter of 2001.

Appreciation (depreciation) in value of derivatives, net. On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended ("SFAS 133"). In accordance with SFAS 133, the Company recorded its interest rate swap agreement at market value on January 1, 2001. Any changes in market value of the interest rate swap agreement after January 1, 2001 are recorded as income or expense in the Company's statement of operations. The Company recognized income associated with the derivative of $389,000 in the three months ended March 31, 2002 and recognized depreciation expense associated with the derivative of $785,000 for the three months ended March 31, 2001. In the prior year, depreciation was experienced primarily due to decreasing market interest rates. In the current year, market interest rates have remained low however as interest payments on the swap agreement are made the remaining estimated liability has decreased. This decrease in the estimated remaining liability generated the $389,000 of income recorded in the current year.

Interest expense. Interest expense decreased $286,000, or 3.1%, to $9.0 million for the three months ended March 31, 2002 from $9.3 million for the three months ended March 31, 2001. This decrease was due to lower interest rates.

Income tax benefit. Income tax benefit for the three months ended March 31, 2002 and March 31, 2001 was $46,000 and $2.5 million, respectively. The decrease in the income tax benefit was directly attributable to the decrease in net loss before tax in the current quarter as compared to the first quarter of the prior year.

Extraordinary charge on extinguishment of debt, net of income tax benefit. On December 21, 2001, the Company completed its sale of $180 million aggregate principal amount of its 9 1/4% Senior Subordinated Notes due 2011 (the "9 1/4% Notes"). On this same date, the Company instructed the trustee for its 10 5/8% Senior Subordinated Notes due 2006 (the "10 5/8% Notes") to commence the redemption in full of the 10 5/8% Notes. The net proceeds from the sale of the 9 1/4% Notes was used for the redemption of the 10 5/8% Notes. The redemption was completed on January 22, 2002 and all obligations associated with the 10 5/8% Notes were extinguished on that date. The Company recorded an extraordinary charge of approximately $11.3 million ($7.3 million after income tax) in the quarter ended March 31, 2002 in connection with this early extinguishment of debt.

Cumulative effect of accounting change, net of income tax benefit. On January 1, 2002, the Company adopted SFAS 142, which requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, SFAS 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS 142 and annually thereafter. Under SFAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. As of January 1, 2002, the Company performed the first of the required impairment tests of goodwill and indefinite lived intangible assets. As a result of the required impairment test, in the quarter ended March 31, 2002, the Company recognized a non-cash impairment of goodwill and other intangible assets of $39.5 million ($30.6 million net of income taxes). Such charge is reflected as a cumulative effect of an accounting change in the accompanying condensed consolidated statement of operations. In calculating the impairment charge, the fair value of the reporting units underlying the segments were estimated using a discounted cash flow methodology.

Net loss available to common stockholders. Net loss available to common stockholders of the Company for the three months ended March 31, 2002 and March 31, 2001 was $38.2 million and $5.2 million, respectively.

OUTLOOK

With the adoption of Regulation FD by the Securities and Exchange Commission, the Company is providing this guidance to widely disseminate the Company's outlook for the full year 2002. The guidance being provided is based on the economic and market conditions as of May 14, 2002. The Company can give no assurances as to how changes in those conditions may affect the current expectations. The Company assumes no obligation to update the guidance or expectations contained in this "Outlook" section. All matters discussed in this "Outlook" section are forward-looking and, as such, persons relying on this information should refer to the "Cautionary Statements for Purposes of the `Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" section below.

Outlook for Full Year 2002

The Company currently believes that the general economic conditions including the modest increase in advertising expenditures experienced during the first quarter of 2002 will continue to gradually improve during the remainder of 2002. Accordingly, the Company currently anticipates that broadcast local and national revenue, excluding political revenue, and publishing revenues will demonstrate in the aggregate, modest low to mid single digit percentage increases over 2001 results throughout 2002. In addition, 2002 is a political election year and the Company expects its broadcast operations to benefit from the cyclical return of political advertising. The Company notes that in both 1998 and 2000 its television stations recorded approximately $9 million of political revenue in each year.

Revenue generation, especially in light of current general economic conditions, is subject to many factors beyond the control of the Company. Accordingly, the Company's ability to forecast future revenue, within the current economic environment, is limited and actual results may vary substantially from current expectations.

At present, the Company anticipates that total operating expenses, excluding depreciation and amortization, for each of the Company's operating segments for the full year 2002, will be approximately equal to 2001 results. These generally favorable operating expense expectations reflect the Company's on-going expense reduction efforts at all of its operating locations.

LIQUIDITY AND CAPITAL RESOURCES

Benedek Acquisition

On April 1, 2002, the Company entered into a Letter of Intent to acquire Stations Holding, Inc., the parent company of Benedek Broadcasting Corporation ("Benedek") in a transaction valued at approximately $500 million. The acquisition is subject to execution of a definitive agreement, which the companies expect to execute soon, as well as approval by the Federal Communications Commission (the "FCC") of the transfer of control of Benedek's television licenses. The transaction is also subject to approval of the Delaware bankruptcy court with jurisdiction over the reorganization of Stations Holding Company, Inc. Management continues to believe that the transaction will close by the fourth quarter of 2002.

The Company intends to finance the acquisition by issuing a combination of debt and equity securities. The Company is considering, among other alternatives, raising the equity financing through a secondary public offering of the Company's Common Stock.

Issuance of Series C Preferred Stock

On April 22, 2002, the Company issued $40 million (4,000 shares) of redeemable and convertible preferred stock to a group of private investors. The preferred stock was designated as Series C Preferred Stock and has a liquidation value of $10,000 per share.

The Series C Preferred Stock is convertible into the Company's Class B Common Stock at a conversion price of $14.39 per share. The Series C Preferred Stock will be redeemable at the Company's option on or after April 22, 2007 and will be subject to mandatory redemption on April 22, 2012 at liquidation value. Dividends on the Series C Preferred Stock will accrue at 8% per annum until April 22, 2009 after which the dividend rate shall be 8.5% per annum. Dividends, when declared by the Company's board of directors may be paid at the Company's option in cash or additional shares of Series C Preferred Stock.

As part of the transaction, holders of the Company's Series A and Series B Preferred Stock have exchanged all of the outstanding shares of each respective series, an aggregate fair value of approximately $8.6 million, for an equal number of shares of the Series C Preferred Stock. The excess of the $8.6 million price to redeem the Series A and Series B Preferred Stock over its carrying value of $4.6 million was charged to retained earnings upon redemption in April 2002. Upon closing this transaction, the Series C Preferred Stock is the only currently outstanding preferred stock of the Company.

Net cash proceeds approximated $30.5 million, after transaction fees and expenses and excluding the value of the Series A and Series B Preferred Stock exchanged into the Series C Preferred Stock. The Company used the net cash proceeds to repay all current outstanding borrowings of $13.5 million under the Company's revolving credit facility and intends to use the remaining net cash proceeds for other general corporate purposes.

Digital Television Conversion

The Company is currently broadcasting a digital signal at four of its thirteen stations: WRDW in Augusta, Georgia; KWTX in Waco, Texas; WEAU in Eau Claire, Wisconsin and KXII in Sherman, Texas. The Company has commenced installation of similar systems at several of its other television stations. The Company currently intends to have all such required installations completed as soon as practicable. Currently the FCC requires that all stations be operational by May of 2002. As necessary, the Company has requested and received approval from the FCC to extend the May 2002 deadline by six months for all of the Company's remaining stations that are not currently broadcasting in digital. Given the Company's good faith efforts to comply with the existing deadline and the facts specific to each extension request, the Company believes the FCC will grant any further deadline extension requests that become necessary.

The estimated total multi-year (1999 through 2003) capital expenditures required to implement initial digital television broadcast systems will approximate $31.4 million which includes a capital lease with an initial capitalization cost of approximately $2.5 million for tower facilities at WVLT-TV, the Company's station in Knoxville, Tennessee. As of March 31, 2002, the Company has incurred $11.1 million of such costs. The remaining $20.3 million of expenditures is expected to be incurred at various times throughout the remainder of 2002 as the Company completes construction of its digital television broadcast systems. The remaining cash payments relating to such expenditures are expected to occur at various dates throughout 2002 and 2003.

Income Taxes

The Internal Revenue Service (the "IRS") is auditing the Company's federal tax return for the year ended December 31, 1996. In conjunction with this examination, the Company extended the time period that the IRS has to audit the Company's federal tax returns for the 1996 and 1997 tax years until December 31, 2001.

In October 2001, the Company received a notice of deficiency from the IRS associated with its audit of the Company's 1996 federal income tax return. The IRS alleges in the notice that the Company owes approximately $12.1 million of tax plus interest and penalties stemming from certain acquisition related transactions, which occurred in 1996. Additionally, if the IRS were successful in its claims, the Company would be required to account for these acquisition transactions as stock purchases instead of asset purchases which would significantly lower the tax basis in the assets acquired. The Company believes the IRS claims are without merit and on January 18, 2002 filed a petition to contest the matter in United States Tax Court. The Company cannot predict when the tax court will conclude its ruling on this matter.

General

The Company's working capital was $7.0 million and $18.3 million at March 31, 2002 and December 31, 2001, respectively. The decrease in working capital was due primarily to the redemption of the Company's 10 5/8% Notes and a decrease in accounts receivable due to the collection of seasonally elevated fourth quarter revenues.

The Company's operations provided $265,536 and $6.4 million of cash for the three months ended March 31, 2002 and 2001, respectively. The Company's investing activities provided $163.3 million for the three months ended March 31, 2002 and used $645,866 of cash for the three months ended March 31, 2001. The difference for operating activities and investing activities between the current quarter and that of the prior year is due primarily to the early retirement of the Company's 10 5/8% Notes.

The Company's financing activities used $160.9 million and $6.8 million of cash for the three months ended March 31, 2002 and 2001, respectively. The increase in cash used in financing activities resulted primarily from the redemption of the Company's 10?% Notes, which was effective January 22, 2002.

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. During the three months ended March 31, 2002, the Company paid $1.3 million for such program broadcast rights.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of March 31, 2002, the Company anticipates, for federal and certain state income taxes, that it will generate taxable operating losses for the foreseeable future.

At March 31, 2002, the balance outstanding and the balance available under the Company's bank loan agreement were $212.5 million and $37.5 million, respectively, and the interest rate on the balance outstanding was 5.3%. At March 31, 2001, the balance outstanding and the balance available under the Company's bank loan agreement were $207.5 million and $63.5 million, respectively, and the effective interest rate on the balance outstanding was 8.0%.

Management believes that current cash balances, cash flows from operations and available funds under its bank loan agreement will be adequate to provide for the Company's capital expenditures, debt service, cash dividends and working capital requirements.

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.

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

This quarterly report on Form 10-Q 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, (iv) high debt levels and (v) 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.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.1 Articles of Amendment to the Articles of Incorporation of Gray Communications Systems, Inc. As executed on April 15, 2002.

(b) Reports on Form 8-K

On January 8, 2002, the Company filed a current report on Form 8-K where it reported that on January 2, 2002 the Company dismissed Ernst & Young LLP as the Company's principal independent accountants and that on January 7, 2002, the Company retained PricewaterhouseCoopers LLP as its principal independent accountants.

SIGNATURES

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

GRAY COMMUNICATIONS SYSTEMS, INC.
(Registrant)

Date: May 15, 2002

By: /s/ James C. Ryan

James C. Ryan,
Vice President and Chief Financial Officer

EXHIBIT 3.1

ARTICLES OF AMENDMENT
TO THE
ARTICLES OF INCORPORATION
OF
GRAY COMMUNICATIONS SYSTEMS, INC.

I.

The name of the corporation is Gray Communications Systems, Inc.

II.

Effective the date hereof, the Section entitled "PREFERRED STOCK" of Article 4 of the Articles of Incorporation of Gray Communications Systems, Inc. is hereby amended by adding the subsection entitled "SERIES C CONVERTIBLE PREFERRED STOCK" as set forth in Exhibit A attached hereto.

III.

All other provisions of the Articles of Incorporation, including the remaining sections of Article 4, shall remain in full force and effect.

IV.

This Amendment was duly adopted on March 14, 2002 by the Board of Directors in accordance with the provisions of ss. 14-2-602(d) and ss. 14-2-1002(9) of the Georgia Business Corporation Code, and pursuant to said code sections, shareholder action was not required.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be executed by its duly authorized officer on this the 15th day of April, 2002.

GRAY COMMUNICATIONS SYSTEMS, INC.

/s/ James C. Ryan

Name: James C. Ryan
Title: Vice President and Chief Financial Officer
By: Neal H. Ray, Power of Attorney

Exhibit A

SERIES C CONVERTIBLE PREFERRED STOCK

Section 1. Designation and Amount. The shares of such series shall be designated as "Series C Convertible Preferred Stock" (the "SERIES C PREFERRED STOCK"), and the number of shares constituting the Series C Preferred Stock shall be 5,000 and if and to the extent further shares are needed in order to pay dividends in shares of Series C Preferred Stock as provided for in Section 3 hereof, the Board of Directors of the Corporation (the "BOARD OF DIRECTORS" or the "BOARD") will authorize additional shares of Series C Preferred Stock so that at all times, so long as Series C Preferred Stock is outstanding, there will be a sufficient number of Series C Preferred Stock authorized and reserved to pay dividends as provided for in Section 3 hereof in shares of Series C Preferred Stock for the next succeeding four quarters.

Section 2. Rank. All Series C Preferred Stock shall rank, as to payment of dividends and as to distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary (any such event, a "LIQUIDATION EVENT"):

(i) senior to (A) all classes or series of common stock of the Corporation, whether voting or non-voting, including, without limitation , the Class A Common Stock, no par value (the "CLASS A COMMON STOCK"), and the Class B Common Stock, no par value (the "CLASS B COMMON STOCK"), whether now or hereafter issued (collectively, the "COMMON STOCK") and (B) all other shares, interests, participations or other equivalents (however designated) of capital stock of the Corporation which does not constitute Parity Stock or Senior Stock (as each such term is defined below) (all of the foregoing collectively referred to as "JUNIOR STOCK");

(ii) on a parity with (A) the Series A Preferred Stock, no par value, now or hereafter issued, (B) the Series B Preferred Stock, no par value, now or hereafter issued and (C) each other series or class of Preferred Stock (as defined in Article 4 of the Restated Articles of Incorporation of the Corporation) hereafter created, the terms of which expressly provide that such series or class ranks on a parity with the Series C Preferred Stock as to dividends and distribution of assets upon a Liquidation Event (collectively referred to as "PARITY STOCK"); and

(iii) junior to each series or class of Preferred Stock hereafter created, the terms of which expressly provide that such class or series ranks senior to the Series C Preferred Stock as to dividends and distributions of assets upon a Liquidation Event (collectively referred to as "SENIOR STOCK").

Section 3. Dividends and Distributions. The holders of shares of Series C Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for such purposes, dividends at the rate of $800.00 per annum per share (which amount shall increase to $850.00 per annum per share commencing on the seventh anniversary of the date of the initial issuance of shares of Series C Preferred Stock) (as such dollar amounts and the references to $10,000.00 in Section 4 hereof and in Section 5(a) hereof may be appropriately adjusted to reflect any stock split, stock dividend, reclassification, recapitalization or similar event involving the Series C Preferred Stock), which shall be fully cumulative and shall accrue without interest from the date of original issuance of such share (whether or not declared by the Board of Directors). Dividends shall be payable when, as, and if declared by the Board of Directors. Dividends shall be payable, at the Corporation's option in cash, or in additional shares (whether whole or fractional) of Series C Preferred Stock valued, for the purpose of determining the number of shares (or fraction thereof) of such Series C Preferred Stock to be issued, at the value of $10,000.00 per whole share, quarterly on March 31, June 30, September 30 and December 31 of each year commencing June 30, 2002 (except that if any such date is a Saturday, Sunday, or legal holiday, then such dividend shall be payable on the next day that is not a Saturday, Sunday, or legal holiday) to holders of record as they appear on the stock books of the Corporation on the 15th day of the month in which the dividend is to be paid. The amount of dividends payable per share of Series C Preferred Stock for each quarterly dividend period shall be computed by dividing the annual dividend amount by four. The amount of dividends payable for the initial dividend period and any period shorter than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months. No dividends or other distributions, other than dividends payable solely in shares of Junior Stock, shall be paid, declared or set apart for payment on, and except for the use of Common Stock to enable option holders to exercise stock options pursuant to the stock option plans of the Corporation and its subsidiaries, no purchase, redemption, or other acquisition shall be made by the Corporation of any shares of Junior Stock (and no moneys shall be paid to or made available to a sinking fund for the redemption of any shares of such stock) unless and until all accrued and unpaid dividends on the Series C Preferred Stock, including the full dividends for the then current dividend period, shall have been, or contemporaneously are, declared and paid.

If at any time any dividend on any Senior Stock shall be in default, in whole or in part, no dividend shall be paid, declared or set apart for payment on the Series C Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Stock, including the full dividends for the then current dividend period, shall have been, or contemporaneously are, declared and paid. No full dividends shall be paid, declared or set apart for payment on any Parity Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, respectively paid, declared or set apart for such payment on the Series C Preferred Stock. No full dividends shall be paid, declared or set apart for payment on the Series

C Preferred Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, respectively paid, declared or set apart for payment on the Parity Stock for all dividend periods terminating on or prior to the date of payment of such full dividends. When dividends are not paid, declared or set aside in full upon the Series C Preferred Stock and the Parity Stock, all dividends paid, declared or set apart for payment upon shares of Series C Preferred Stock and the Parity Stock shall be respectively paid, declared or set apart for payment pro rata, so that the amount of dividends paid, declared or set apart for payment, as the case may be, per share on the Series C Preferred Stock and the Parity Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Series C Preferred Stock and the Parity Stock bear to each other.

Any reference to "distribution" contained in this Section 3 shall not be deemed to include any stock dividend or distributions made in connection with any Liquidation Event.

Section 4. Liquidation Preference. In the event of a Liquidation Event, the holders of Series C Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets constitute stated capital or surplus of any nature, an amount equal to the sum of (i) dividends accrued and unpaid thereon to the date of final distribution to such holders, without interest, and (ii) $10,000.00 per share (such sum, as of any given time, the "LIQUIDATION PREFERENCE") and no more, before any payment shall be made or any assets distributed to the holders of Junior Stock; provided, however, that the holders of Series C Preferred Stock shall be entitled to such payment only in the event that the Corporation's payments with respect to the liquidation preference of the holders of Senior Stock are fully met. After the liquidation preferences of the Senior Stock are fully met, the entire assets of the Corporation available for distribution shall be distributed ratably among the holders of the Series C Preferred Stock and any Parity Stock in proportion to the respective preferential amounts to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the Liquidation Preference of the shares of the Series C Preferred Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation. Neither a consolidation or merger of the Corporation with another corporation nor a sale or transfer of all or part of the Corporation's assets for cash, securities, or other property will be considered a Liquidation Event.

Section 5. Redemption of Series C Preferred Stock.

(a) Redemption at Option of the Corporation. At any time on or after the fifth anniversary of the date of the initial issuance of shares of Series C Preferred Stock, the Corporation at its option, may redeem at any time all, or from time to time a portion, of the Series C Preferred Stock on any date set by the Board of Directors (any such date, an "OPTIONAL REDEMPTION DATE"), at a redemption price equal to the sum of (i) $10,000.00 per share plus (ii) an amount per share equal to all dividends on the Series C Preferred Stock accrued and unpaid on such share, pro rata to the date fixed for redemption (or through the date of actual payment if the Corporation fails to satisfy its payment obligations upon a holder's compliance with the procedures set forth in Section 5(c) hereof) (such amount, as of any given time, the "REDEMPTION PRICE"). The Redemption Price shall be payable in cash.

In case of the redemption of less than all of the then outstanding Series C Preferred Stock, the Corporation shall effect such redemption pro rata. Notwithstanding the foregoing, the Corporation shall not redeem less than all of the Series C Preferred Stock at any time outstanding until all accrued but unpaid dividends upon all Series C Preferred Stock then outstanding shall have been paid.

(b) Mandatory Redemption of Series C Preferred Stock. On the tenth anniversary of the date of the initial issuance of shares of Series C Preferred Stock (the "MANDATORY REDEMPTION DATE"), the Corporation shall redeem all of the then outstanding shares of Series C Preferred Stock at a price per share equal to the Redemption Price. The Redemption Price shall be payable in cash. In the event the Corporation fails for any reason to satisfy such repurchase obligation on the Mandatory Redemption Date (the "MANDATORY REDEMPTION OBLIGATION"), the Mandatory Redemption Obligation shall be discharged as soon as the Corporation is able to do so. If and for so long as any Mandatory Redemption Obligation with respect to the Series C Preferred Stock shall not be fully discharged, the Corporation shall not (i) redeem, purchase, or otherwise acquire any Parity Stock or discharge any mandatory or optional redemption, sinking fund or other similar obligation in respect of any Parity Stock (except in connection with a redemption, sinking fund or other similar obligation to be satisfied pro rata with the Series C Preferred Stock) or (ii) declare any dividend or make any distribution on Junior Stock, redeem, purchase or otherwise acquire any Junior Stock or discharge any mandatory or optional redemption, sinking fund or other similar obligation in respect of any Junior Stock.

(c) Mechanics of Redemption. Not more than 60 nor less than 30 days prior to an Optional Redemption Date or the Mandatory Redemption Date, as applicable, the Corporation shall give notice by a nationally recognized overnight courier and sent by facsimile transmission with receipt confirmed, to the holders of record of the Series C Preferred Stock to be redeemed, addressed to such shareholders at their last addresses as shown on the books of the Corporation. Each such notice of redemption shall specify the date fixed for redemption, the Redemption

Price, the place or places of payment, that payment will be made upon presentation and surrender of the Series C Preferred Stock, that accrued but unpaid dividends to the date fixed for redemption will be paid on the date fixed for redemption, and that on and after the redemption date, dividends will cease to accrue on such shares.

Any notice which is sent to a holder as herein provided shall be conclusively presumed to have been duly given, whether or not the holder of the Series C Preferred Stock receives such notice; and failure to give such notice, or any defect in such notice, to the holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series C Preferred Stock. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate (or certificates) evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price and thereupon the Corporation shall pay, or cause to be paid, the full Redemption Price for the shares so surrendered in cash, provided that if a certificate is not surrendered by a holder of record of shares of Series C Preferred Stock represented by such certificate but such holder delivers an affidavit to the Corporation stating that the certificate or certificates representing its shares of Series C Preferred Stock have been lost, stolen or destroyed and executes an agreement reasonably satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such lost, stolen or destroyed certificates, payment of the full Redemption Price shall be made to such holder. In the case of an optional redemption by the Corporation pursuant to Section 5(a) hereof, if fewer than all the shares represented by any such surrendered certificate (or certificates) are redeemed, a new certificate shall be issued representing the unredeemed shares. If, on the date fixed for redemption, funds necessary for the redemption shall be available therefor and shall have been irrevocably deposited in a separate account for the benefit of the holders of the shares called for redemption in a nationally recognized financial institution, then, notwithstanding that the certificates evidencing any shares so called for redemption shall not have been surrendered, the dividends with respect to the shares so called shall cease to accrue after the date fixed for redemption, the shares shall no longer be deemed outstanding, the holders thereof shall cease to be shareholders, and all rights whatsoever with respect to the shares so called for redemption (except the right of the holders to receive the Redemption Price without interest upon surrender of their certificates therefor) shall terminate. The Corporation shall cause any monies deposited by the Corporation pursuant to the foregoing provision and unclaimed by the holders of the shares called for redemption at the end of one year from the date fixed for redemption, to the extent permitted by law, to be returned by such financial institution to the Corporation, after which the holders of shares of Series C Preferred Stock so called for redemption who have not claimed the Redemption Price shall look only to the Corporation for the payment thereof. Shares of Series C Preferred Stock redeemed by the Corporation shall be restored to the status of authorized but unissued shares of Preferred Stock of the Corporation, without designation as to series, and may thereafter be reissued, but not as shares of Series C Preferred Stock.

Section 6. Conversion Rights. The Series C Preferred Stock will be convertible into Class B Common Stock as follows:

(a) Conversion. Subject to and upon compliance with the provisions of this Section 6 hereof, the holder of any shares of Series C Preferred Stock will have the right at such holder's option, at any time or from time to time, to convert any of such shares of Series C Preferred Stock into fully paid and nonassessable shares of Class B Common Stock at the Conversion Price in effect on the Conversion Date without the payment of any additional consideration by the holder thereof (as such terms are defined below); provided, however, that none of the persons (as defined below) specified in New York Stock Exchange Rule 312.03(b) may convert shares of Series C Preferred Stock unless and until the issuance of such shares to such persons has been approved by the requisite vote of the shareholders of the Corporation, or unless otherwise permitted by the New York Stock Exchange or the rules thereof.

(b) Conversion Price. Each share of Series C Preferred Stock will be converted into a number of shares of Class B Common Stock determined by dividing (i) the Liquidation Preference by (ii) the Conversion Price in effect on the Conversion Date. The Conversion Price at which shares of Class B Common Stock will initially be issuable upon conversion of the shares of Series C Preferred Stock will be $14.39. The Conversion Price will be subject to adjustment as set forth in Section 6(e) hereof. Subject to Section 6(g) hereof, no dividends will accrue or be paid on any share of Series C Preferred Stock subsequent to the conversion of such share.

(c) Mechanics of Conversion. The holder of any shares of Series C Preferred Stock may exercise the conversion right specified in Section 6(a) hereof by surrendering to the Corporation or the transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice specifying the number of shares to be converted and stating therein such holder's name or the name or names of such holder's nominees in which such holder wishes the certificate or certificates evidencing the shares of Class B Common Stock issuable upon such conversion to be issued; provided, however, that the Corporation will not be obligated to issue to any such holder or such holder's nominees the certificate or certificates evidencing the shares of Class B Common Stock issuable upon such conversion, unless (i)

(A) the certificate or certificates evidencing the shares of Series C Preferred Stock are either delivered to the Corporation or the transfer agent of the Corporation or (B) such holder delivers an affidavit to the Corporation stating that the certificate or certificates representing its shares of Series C Preferred Stock have been lost, stolen or destroyed and executes an agreement reasonably satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such lost, stolen or destroyed certificates and (ii) if shares of Class B Common Stock are to be issued in the name of any person other than the holder, the holder establishes to the satisfaction of the Corporation that any transfer or other applicable taxes have been paid or are not payable. Conversion will be deemed to have been effected on the date when delivery is made of notice of an election to convert and the certificate or certificates evidencing the Series C Preferred Stock shares to be converted and any other documents required by the immediately preceding sentence (the "CONVERSION DATE"). Subject to the provisions of Section 6(e)(vi) hereof, as promptly as practicable thereafter, the Corporation will issue and deliver to or upon the written order of such holder a certificate or certificates for the number of full shares of Class B Common Stock to which such holder or such holder's nominees is entitled and a check or cash with respect to any fractional interest in a share of Class B Common Stock as provided in Section 6(d). Subject to the provisions of Section 6(e)(vi) hereof, the person (which term, when used herein, shall include any corporation, individual, limited liability company, joint stock company, joint venture, partnership, unincorporated association, governmental regulatory entity, country, state or political subdivision thereof, trust, municipality or other entity as well as a natural person) in whose name the certificate or certificates for shares of Class B Common Stock are to be issued will be deemed to have become a holder of record of such Class B Common Stock on the applicable Conversion Date. Upon conversion of only a portion of the number of shares covered by a certificate representing shares of Series C Preferred Stock surrendered for conversion, the Corporation will issue and deliver to or upon the written order of the holder of the certificate so surrendered for conversion, at the expense of the Corporation, a new certificate covering the number of shares of Series C Preferred Stock representing the unconverted portion of the certificate so surrendered.

(d) Fractional Shares. No fractional shares of Class B Common Stock or scrip will be issued upon conversion of shares of Series C Preferred Stock. If more than one share of Series C Preferred Stock is surrendered for conversion at any one time by the same holder, the number of full shares of Class B Common Stock issuable upon conversion thereof will be computed on the basis of the aggregate number of shares of Series C Preferred Stock so surrendered by such holder. Instead of any fractional shares of Class B Common Stock which would otherwise be issuable upon conversion of any shares of Series C Preferred Stock, the Corporation will pay a cash adjustment in respect of such fractional interest in an amount equal to that fractional interest based on the Market Price of the Class B Common Stock.

(e) Adjustments. The Conversion Price and conversion rights relating to the Series C Preferred Stock will be subject to adjustment from time to time as follows; provided, however, that none of the provisions in this Section 6(e) shall apply in the case of a Liquidation Event, as to which the provisions of Section 4 will apply:

(i) Definitions. For purposes of this Section 6(e) and certain other sections herein, the following definitions shall apply.

(1) "BUSINESS DAY" means any day other than Saturday, Sunday, or any day on which banks in New York City are authorized or obligated by applicable law to close.

(2) "MARKET PRICE" of any security as of any given time means the average of the closing prices of such security's sales on all securities exchanges on which such security may at the time be listed, or, if there has been no sales on any such exchange on any day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day, or, if on any day such security is not so listed, the average of the representative bid and asked prices quoted in the NASDAQ System as of 4:00 P.M., New York time, or, if on any day such security is not quoted in the NASDAQ System, the average of the highest bid and lowest asked prices on such day in the domestic over-the-counter market as reported by the National Quotation Bureau, Incorporated, or any similar successor organization, in each such case averaged over a period of the 30 consecutive Business Days prior to the day as of which "Market Price" is being determined. If at any time such security is not listed on any securities exchange or quoted in the NASDAQ System or the over-the-counter market, the "Market Price" shall be the fair value thereof determined in good faith by the Board of Directors.

(3)

(ii) Reorganization, Reclassification or Recapitalization of the Corporation. In case of (a) a capital reorganization, reclassification or - recapitalization of the Class B Common Stock (other than any Liquidation Event or in the cases referred to in Sections 6(e)(iii) through 6(e)(iv) hereof), (b) the Corporation's consolidation or merger with or into another corporation in which the Corporation is not the surviving entity, or any - such transaction if the Corporation is the surviving entity but the shares of the Corporation's Class B Common Stock outstanding immediately prior to the transaction are converted, by virtue of the transaction, into other property, whether in the form of securities, cash or otherwise (other than a Liquidation Event), or (c) the sale or transfer of the Corporation's property as an entirety or substantially as an entirety (other than a - Liquidation Event), then, as part of such reorganization, reclassification, recapitalization, merger, consolidation, sale or transfer, lawful provision shall be made so that there shall thereafter be deliverable upon the conversion of a share of Series C Preferred Stock, and without payment of any additional consideration, the number of shares of Common Stock or other securities or property to which the holder of the number of shares of Class B Common Stock which would otherwise have been deliverable upon the conversion of the Series C Preferred Stock immediately prior to such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer would have been entitled to receive in such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer, all subject to further adjustment as provided in this Section 6(e). This Section 6(e)(ii) shall apply to successive reorganizations, reclassifications, recapitalizations, consolidations, mergers, sales and transfers and to the conversion of the Series C Preferred Stock into the stock or securities of any other corporation into which the Series C Preferred Stock shall become convertible. Concurrently with the consummation of such transaction, the corporation formed by or surviving any such transaction (if other than the Corporation), or the person to which such sale or conveyance shall have been made, shall enter into an agreement assuming the obligation (but only if such obligation is not assumed by operation of law) to deliver to each holder of Series C Preferred Stock such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to acquire.

(iii) Reclassifications. If the Corporation changes any of the securities into which the Series C Preferred Stock is convertible into the same or a different number of securities of any other class or classes, each share of Series C Preferred Stock shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities into which the Series C Preferred Stock was convertible immediately prior to such reclassification or other change and the Conversion Price therefor shall be appropriately adjusted.

(iv) Splits and Combinations. If the Corporation at any time subdivides (by way of stock split, stock dividend or otherwise) any of its outstanding shares of Class B Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely, if the outstanding shares of Class B Common Stock are combined (by way of stock split or otherwise) into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(v) Rounding of Calculations; Minimum Adjustment; Successive Adjustments. All calculations under this Section 6(e) will be made to the nearest cent or the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this Section 6 to the contrary notwithstanding, no adjustment in the Conversion Price will be made if the amount of such adjustment would be less than $0.05, but any such amount will be carried forward and an adjustment with respect thereto will be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, will aggregate $0.05 or more. In the event that, as a result of the provisions of any subparagraph of this Section 6(e), the holder of this Series C

Preferred Stock upon subsequent conversion shall become entitled to receive any shares of capital stock of the Corporation other than Class B Common Stock, the number of such other shares so receivable upon conversion of this Series C Preferred Stock shall thereafter be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions contained herein.

(vi) Timing of Issuance of Additional Class B Common Stock Upon Certain Adjustments. In any case in which the provisions of this Section 6(e) require that upon the occurrence of an event an adjustment be made, such adjustment will become effective immediately after a record date for such event (or, if no record date is set, immediately after such event). The Corporation may defer, until the occurrence of such event, (A) issuing to the holder of any share of Series C Preferred Stock converted after any such record date and before the occurrence of such event any additional shares of Class B Common Stock issuable upon such conversion by reason of the adjustment required by such event over and above the shares of Class B Common Stock issuable upon such conversion before giving effect to such adjustment and (B) paying to such holder any amount of cash in lieu of a fractional share of Class B Common Stock pursuant to Section 6(d) hereof; provided, however, that the Corporation will deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares and such cash, upon the occurrence of the event requiring such adjustment.

(f) Statement Regarding Adjustments. Whenever the Conversion Price is adjusted as provided in Section 6(e) hereof, the Corporation will file, at the office of any transfer agent for the Series C Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Conversion Price in effect after such adjustment and the Corporation will also cause a copy of such statement to be sent by a nationally recognized overnight courier and sent by facsimile transmission with receipt confirmed, to each holder of shares of Series C Preferred Stock at such holder's address appearing on the Corporation's records. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of Section 6(h) hereof.

(g) Conditional Conversion. If it is proposed that a registration of Class B Common Stock is intended to be filed, except on Form S-4 or S-8 (or any successor forms), which includes the secondary registration on behalf of holders of Class B Common Stock, the Corporation will notify the holders of Series C Preferred Stock of such proposed registration and such holders may conditionally exercise their right to convert any or all of such shares of Series C Preferred Stock so held in accordance with this Section 6 and participate in such proposed registration in accordance with the registration rights granted to such holders by the Corporation, if any. Only the number of shares of Series C Preferred Stock conditionally converted pursuant to this Section 6(g) to shares of Class B Common Stock that are actually sold under an effective registration statement will be deemed converted pursuant to Section 6(a) hereof. If such registration is not declared effective or is withdrawn, any conditional exercise pursuant to this Section 6(g) will be null and void ab initio. The number of shares of Series C Preferred Stock conditionally converted pursuant to this Section 6(g) to shares of Class B Common Stock that are not actually sold under an effective registration statement will be deemed not to be converted pursuant to Section 6(a) hereof and the conditional conversion of such shares will be null and void ab initio upon the termination of the offering under such registration statement and such shares will be deemed to have been outstanding (including, without limitation, for purposes of accruing dividends) during the period such shares were conditionally converted pursuant to this Section 6(g). The foregoing right of conditional conversion of Series C Preferred Stock shall also apply in the case of any proposed transaction described in subparagraph (ii) of Section 6(e) and, if such transaction does not occur, such conditional exercise will be null and void ab initio and such Series C Preferred Stock will be deemed to have been outstanding during such period of conditional exercise.

(h) Notice to Holders. If the Corporation proposes to take any action of the type described in Sections 6(e)(ii), (iii) or (iv) hereof, the Corporation will give notice to each holder of shares of Series C Preferred Stock, in the manner set forth in Section 6(f), which notice will specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice will also set forth such facts with respect thereto as will be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price and the number, kind, or class of shares or other securities or property which will be deliverable upon conversion of shares of Series C Preferred Stock (if any). In the case of any action which would require the fixing of a record date, such notice will be given at least ten days prior to the date so fixed, and in case of all other action, such notice will be given at least 10 days prior to the taking of such proposed action. Failure to give such notice, or any defect therein, will not affect the legality or validity of such action.

(i) Costs. The Corporation will pay all documentary, stamp, transfer, or other transactional taxes attributable to the issuance or delivery of shares of Class B Common Stock upon conversion of any shares of Series C Preferred Stock; provided, however, that the Corporation will not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares in a name other than that of the holder of the shares of Series C Preferred Stock in respect of which such shares are being issued.

(j) Reservation of Shares. The Corporation will reserve at all times so long as any shares of Series C Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock (if applicable) or its authorized but unissued shares of Class B Common Stock, or both, solely for the purpose of effecting the conversion of the shares of Series C Preferred Stock, sufficient shares of Class B Common Stock to provide for the conversion of all outstanding shares of Series C Preferred Stock.

(k) Valid Issuance. All shares of Class B Common Stock or any other security which may be issued upon conversion of the shares of Series C Preferred Stock will, upon issuance by the Corporation in accordance with the terms hereof, be duly and validly issued, fully paid and nonassessable and free from all liens and charges with respect to the issuance thereof, and the Corporation will take no action which will cause a contrary result (including, without limitation, any action which would cause the Conversion Price to be less than the par value, if any, of the Class B Common Stock or any such other security).

Section 7. No Sinking Fund. The shares of Series C Preferred Stock shall not be subject to the operation of a purchase, retirement, or sinking fund.

Section 8. Voting Rights. The holders of Series C Preferred Stock will not have any voting rights except as set forth below or as otherwise from time to time required by law.

(a) Whenever dividends on the Series C Preferred Stock shall be in arrears in an amount equal to at least six quarterly dividends (whether or not consecutive), the holders of the Series C Preferred Stock (voting separately as a class) will be entitled to vote for and elect two additional directors. Such right of the holders of Series C Preferred Stock to vote for the election of such two directors may be exercised at an annual meeting or at any special meeting called for such purpose as hereinafter provided or at any adjournment thereof, until dividends in default on such outstanding shares of Series C Preferred Stock shall have been paid in full, at which time the term of office of the two directors so elected shall terminate automatically (subject to revesting in the event of each and every subsequent default of the character specified in the preceding sentence). So long as such right to vote continues, the Secretary of the Corporation may call, and upon the written request of the holders of record of 10% of the outstanding shares of Series C Preferred Stock addressed to him at the principal office of the Corporation shall call, a special meeting of the holders of such shares for the election of such two directors, as provided herein. Such meeting shall be held not less than 45 nor more than 90 days after the accrual of such right, at the place and upon the notice provided by law and in the By-laws of the Corporation for the holding of meetings of shareholders. No such special meeting or adjournment thereof shall be held on a date less than 30 days before an annual meeting of shareholders or any special meeting in lieu thereof, provided that at such annual meeting or special meeting appropriate provisions are made to allow the holders of the Series C Preferred Stock to exercise such right at such meeting. If at any such annual or special meeting or any adjournment thereof the holders of a majority of the then outstanding shares of Series C Preferred Stock entitled to vote in such election shall be present or represented by proxy, then the authorized number of directors of the Corporation shall be increased by two, and the holders of Series C Preferred Stock shall be entitled to elect such two additional directors. Directors so elected shall serve until the next annual meeting or until their successors shall be elected and shall qualify, unless the term of office of the persons so elected as directors shall have terminated by virtue of the payment in full of all dividends in arrears. In case of any vacancy occurring among the directors so elected by the holders of Series C Preferred Stock, the remaining director who shall have been so elected may appoint a successor to hold office for the unexpired term of the director whose place shall be vacant, and such successor shall be deemed to have been elected by the holders of Series C Preferred Stock. If both directors so elected by the holders of Series C Preferred Stock shall cease to serve as directors before their terms shall expire, the holders of Series C Preferred Stock then outstanding and entitled to vote for such directors may, at a special meeting of such holders called as provided above, elect successors to hold office for the unexpired terms of the directors whose places shall be vacant.

(b) Without the consent or affirmative vote of the holders of at least a majority of the outstanding shares of Series C Preferred Stock, voting separately as a class, the Corporation shall not (i) authorize, create, or issue any shares of Senior Stock, (ii) reclassify any Junior Stock into shares of Senior Stock, (iii) reclassify any Parity Stock into shares of Senior Stock, or (iv) increase the number of authorized shares of Series C Preferred Stock (except as contemplated by Section 1 hereof) or issue any shares of Series C Preferred Stock in addition to the 4,000 shares issued on the date hereof (except pursuant to Section 3 hereof).

(c) The affirmative vote or consent of the holders of at least a majority of the outstanding shares of the Series C Preferred Stock, voting separately as a class, will be required for any amendment, alteration, or repeal, whether by merger or consolidation or otherwise, of the Corporation's Restated Articles of Incorporation if the amendment, alteration, or repeal adversely affects the powers, preferences, or special rights of the Series C Preferred Stock (for the avoidance of doubt, it being stipulated that the matters covered by paragraph (b), which are subject to the requirements set forth in such paragraph (b), shall not be deemed to adversely affect the powers, preferences, or special rights of the Series C Preferred Stock).

Section 9. Outstanding Shares. For purposes hereof all shares of Series C Preferred Stock shall be deemed outstanding except that, from the date fixed for redemption pursuant to Section 5 hereof, all shares of Series C Preferred Stock which have been so called for redemption under Section 5, if funds or shares necessary for the redemption of such shares are set aside as provided herein, shall not be deemed to be outstanding.