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 SEPTEMBER 30, 2000.

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 OCTOBER 31, 2000	8,672,881 SHARES AS OF OCTOBER 31, 2000

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GRAY COMMUNICATIONS SYSTEMS, INC.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRAY COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,730,439	$ 1,787,446
Trade accounts receivable, less allowance for doubtful accounts of $843,000 and $1,008,000, respectively	26,133,753	30,338,425
Recoverable income taxes	1,760,025	2,053,025
Inventories	1,683,478	1,051,960
Current portion of program broadcast rights	5,019,765	3,538,441
Other current assets	938,499	803,410
Total current assets	37,265,959	39,572,707
PROPERTY AND EQUIPMENT:		
Land	4,985,121	4,385,286
Buildings and improvements	16,725,955	16,675,110

Equipment	105,860,601	98,760,379
	127,571,677	119,820,775
Allowance for depreciation	(51,793,717)	(39,443,291)
	75,777,960	80,377,484
OTHER ASSETS:		
Deferred loan costs	8,588,544	9,656,586
Goodwill and other intangibles, net:		
Licenses and network affiliation agreements	439,223,512	448,346,122
Goodwill	74,475,573	76,218,410
Consulting and noncompete agreements	1,503,501	1,869,368
Other	3,673,767	2,115,847
	527,464,897	538,206,333
	$ 640,508,816	$ 658,156,524

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	SEPTEMBER 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
CURRENT LIABILITIES:		
Trade accounts payable (includes $600,000 and $0 payable to Bull Run Corporation, respectively)	$ 1,931,267	$ 4,275,411
Employee compensation and benefits	4,660,828	5,163,973
Accrued expenses	2,219,884	3,161,581
Accrued interest	9,678,224	9,233,909
Current portion of program broadcast obligations	4,923,659	3,870,893
Deferred revenue	3,199,442	3,212,814
Current portion of long-term debt	300,000	316,000
Total current liabilities	26,913,304	29,234,581
LONG-TERM DEBT	372,653,313	381,385,942
OTHER LONG-TERM LIABILITIES:		
Program broadcast obligations, less current portion	327,382	428,867
Supplemental employee benefits	776,736	921,832
Deferred income taxes	72,567,829	75,389,829
Other deferred liabilities	3,643,087	-0-
Other acquisition related liabilities	2,406,477	2,607,492
	79,721,511	79,348,020
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued and outstanding 1,361 and 1,350 shares, respectively ($13,605,788 and $13,500,000 aggregate liquidation value, respectively)	13,605,788	13,500,000
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 7,961,574 shares, respectively	10,683,709	10,683,709
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 8,708,820 shares, respectively	116,452,872	116,379,482
Retained earnings	29,216,991	37,373,183
	169,959,360	177,936,374
Treasury Stock at cost, Class A Common Stock, 1,113,107 and 1,127,282 shares, respectively	(8,338,718)	(8,546,285)
Treasury Stock at cost, Class B Common Stock, 35,939 and 110,365 shares, respectively	(399,954)	(1,202,108)
	161,220,688	168,187,981
	$ 640,508,816	$ 658,156,524

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
OPERATING REVENUES				
Broadcasting (net of agency commissions)	$ 29,186,753	$ 21,553,777	$ 86,546,809	$ 65,859,769
Publishing	10,173,210	9,686,360	30,517,918	27,244,021
Paging	2,249,816	2,289,759	6,840,919	6,847,345
	41,609,779	33,529,896	123,905,646	99,951,135
EXPENSES				
Broadcasting	15,606,731	13,846,243	49,232,691	40,519,290
Publishing	7,588,094	7,260,176	23,181,053	20,970,246
Paging	1,359,861	1,567,138	4,379,269	4,805,266
Corporate and administrative	675,752	869,655	2,641,498	2,556,805
Depreciation and amortization	7,816,932	5,697,081	23,326,633	16,816,445
	33,047,370	29,240,293	102,761,144	85,668,052
	8,562,409	4,289,603	21,144,502	14,283,083
Miscellaneous income, net	154,950	103,914	162,649	560,275
	8,717,359	4,393,517	21,307,151	14,843,358
Interest expense	10,068,302	7,115,829	29,909,000	20,890,500
LOSS BEFORE INCOME TAXES	(1,350,943)	(2,722,312)	(8,601,849)	(6,047,142)
Income tax benefit	(217,000)	(754,585)	(2,249,000)	(1,438,585)
NET LOSS	(1,133,943)	(1,967,727)	(6,352,849)	(4,608,557)
Preferred dividends	253,288	252,498	758,288	757,500
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (1,387,231)	$ (2,220,225)	$ (7,111,137)	$ (5,366,057)
AVERAGE OUTSTANDING COMMON SHARES:				
Basic and diluted	15,510,756	11,978,583	15,487,273	11,966,642
LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS:				
Basic and diluted	$ (0.09)	$ (0.19)	$ (0.46)	$ (0.45)

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK		RETAINED EARNINGS
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	
Balance at December 31, 1999	1,350	$ 13,500,000	7,961,574	$ 10,683,709	8,708,820	$116,379,482	$ 37,373,183
Net loss for the nine months ended September 30, 2000							(6,352,849)
Common stock dividends ($.06 per share)							(929,345)
Preferred stock dividends							(758,288)
Issuance of treasury stock:							
401(k) plan						19,343	(34,143)
Non-qualified stock plan						54,047	(81,567)
Purchase of Class B common stock							
Issuance of preferred stock	11	105,788					
Balance at September 30, 2000	1,361	$ 13,605,788	7,961,574	$ 10,683,709	8,708,820	$116,452,872	$ 29,216,991

	CLASS A TREASURY STOCK		CLASS B TREASURY STOCK		
	SHARES	AMOUNT	SHARES	AMOUNT	TOTAL
Balance at December 31, 1999	(1,127,282)	$ (8,546,285)	(110,365)	$(1,202,108)	$168,187,981
Net loss for the nine months ended September 30, 2000					(6,352,849)
Common stock dividends ($.09 per share)					(929,345)
Preferred stock dividends					(758,288)
Issuance of treasury stock:					
401(k) plan			48,287	536,285	521,485
Non-qualified stock plan	14,175	207,567	37,500	408,453	588,500
Purchase of Class B common stock			(11,361)	(142,584)	(142,584)
Issuance of preferred stock					105,788
Balance at September 30, 2000	(1,113,107)	$ (8,338,718)	(35,939)	$ (399,954)	$161,220,688

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
OPERATING ACTIVITIES		
Net loss	$ (6,352,849)	$ (4,608,557)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	12,588,792	8,768,827
Amortization of intangible assets	10,737,841	8,047,618
Amortization of deferred loan costs	1,151,558	871,471
Amortization of program broadcast rights	3,956,662	3,643,787
Payments for program broadcast rights	(4,241,589)	(3,622,283)
Supplemental employee benefits	(145,096)	(113,730)
Common stock contributed to 401(k) Plan	521,485	459,598
Deferred income taxes	(2,822,000)	(2,018,001)
(Gain) loss on disposal of assets	92,995	(363,430)
Changes in operating assets and liabilities:		
Receivables, inventories and other current assets	4,018,749	1,451,921
Accounts payable and other current liabilities	(2,699,041)	2,194,421
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,807,507	14,711,642
INVESTING ACTIVITIES		
Purchase of newspaper business	-0-	(16,512,231)
Purchases of property and equipment	(4,509,074)	(6,418,041)
Investment and deferred acquisition costs	(1,474,093)	(2,752,310)
Payments on purchase liabilities	(490,361)	(786,840)
Proceeds from asset sales	69,896	1,646,503
Other	(30,308)	(707,073)
NET CASH USED IN INVESTING ACTIVITIES	(6,433,940)	(25,529,992)
FINANCING ACTIVITIES		
Dividends paid	(1,581,845)	(1,743,889)
Proceeds from sale of treasury stock - common	126,000	-0-
Purchase of treasury stock - common	(142,584)	(257,004)
Proceeds from borrowings of long-term debt	22,700,000	36,200,000
Payments on long-term debt	(31,448,629)	(21,052,092)
Deferred loan costs	(83,516)	(345,375)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(10,430,574)	12,801,640
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(57,007)	1,983,290
Cash and cash equivalents at beginning of period	1,787,446	1,886,723
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,730,439	$ 3,870,013

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE A-BASIS OF PRESENTATION

The accompanying unaudited 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 nine-month and three-month periods ended September 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. 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, 1999.

NOTE B--LONG-TERM DEBT

At September 30, 2000, the balance outstanding and the balance available under the Company's bank loan agreement were $212.5 million and $72.5 million, respectively, and the interest rate on the balance outstanding was 9.6%.

NOTE C--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:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
	(IN THOUSANDS)			
Operating revenues:				
Broadcasting	$ 29,187	$ 21,554	$ 86,547	$ 65,860
Publishing	10,173	9,686	30,518	27,244
Paging	2,250	2,290	6,841	6,847
	$ 41,610	$ 33,530	$ 123,906	$ 99,951
Operating income:				
Broadcasting	$ 6,524	$ 2,551	$ 15,569	$ 9,939
Publishing	1,795	1,555	4,816	3,878
Paging	243	184	760	467
Total operating income	8,562	4,290	21,145	14,284
Miscellaneous income, net	155	104	162	560
Interest expense	10,068	7,116	29,909	20,891
Loss before income taxes	$ (1,351)	$ (2,722)	$ (8,602)	$ (6,047)

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

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

NOTE C--INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
	(IN THOUSANDS)			
Media Cash Flow:				
Broadcasting	$ 13,687	$ 7,835	$ 37,406	$ 25,716
Publishing	2,617	2,443	7,437	6,344
Paging	897	728	2,484	2,064
	$ 17,201	$ 11,006	$ 47,327	$ 34,124
Media Cash Flow reconciliation:				
Operating income	$ 8,562	$ 4,290	$ 21,145	$ 14,284
Add:				
Amortization of program broadcast rights	1,336	1,243	3,957	3,644
Depreciation and amortization	7,817	5,697	23,327	16,816
Corporate overhead	676	870	2,641	2,557
Non-cash compensation and contributions to the Company's 401(k) plan, paid in common stock	154	98	499	445
Less:				
Payments for program broadcast obligations	(1,344)	(1,192)	(4,242)	(3,622)
Media Cash Flow	$ 17,201	$ 11,006	$ 47,327	$ 34,124

"Media Cash Flow" is defined as operating income, plus depreciation and amortization (including amortization of program broadcast rights), non-cash compensation and corporate overhead, less payments for program broadcast obligations. The Company has included Media Cash Flow data because such data is commonly used as a measure of performance for media companies and is also used by investors to measure a company's ability to service debt. Media Cash Flow is not, and should not be used as, an indicator or alternative to operating income, net income or cash flow as reflected in the Company's unaudited Condensed Consolidated Financial Statements. Media Cash Flow is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

ITEM 2. 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.

As discussed below, the Company has acquired several television stations and a newspaper since January 1, 1999. The Company's acquisitions have been accounted for under the purchase method of accounting. Under the purchase method of accounting, the results of operations of the acquired businesses are included in the accompanying consolidated financial statements as of their respective acquisition dates. The assets and liabilities of acquired businesses are included based on an allocation of the purchase price.

1999 Acquisitions

On October 1, 1999, the Company completed its acquisition of all the outstanding capital stock of KWTX Broadcasting Company and Brazos Broadcasting Company, as well as the assets of KXII Broadcasters Ltd. The Company acquired the capital stock of KWTX Broadcasting Company and Brazos Broadcasting Company in merger transactions with the shareholders of KWTX Broadcasting Company and Brazos Broadcasting Company receiving a combination of cash and the Company's Class B Common Stock for their shares. The Company acquired the assets of KXII Broadcasters Ltd. in an all cash transaction. These transactions are referred to herein as the "Texas Acquisitions."

Aggregate consideration (net of cash acquired) paid in the Company's Class B Common Stock and cash was approximately $146.4 million which included a base purchase price of $139.0 million, transaction expenses of $2.8 million and certain net working capital adjustments (excluding cash) of $4.6 million. In addition to the amount paid, the Company assumed approximately $600,000 in liabilities in connection with the asset purchase of KXII Broadcasters Ltd. The Company funded the acquisitions by issuing 3,435,774 shares of the Company's Class B Common Stock (valued at $49.5 million) to the sellers, borrowing an additional $94.4 million under its bank loan agreement and using cash on hand of approximately $2.5 million.

With the Texas Acquisitions the Company added the following television stations to its broadcast segment: KWTX-TV, the CBS affiliate located in Waco, Texas; KBTX-TV, the CBS affiliate located in Bryan, Texas, each serving the Waco-Temple-Bryan, Texas television market and KXII-TV, the CBS affiliate serving Sherman, Texas and Ada, Oklahoma. Under Federal Communications Commission (the "FCC") regulations, KBTX-TV is operated as a satellite station of KWTX-TV. The three stations are collectively referred to herein as the "Texas Stations."

On March 1, 1999, the Company acquired substantially all of the assets of The Goshen News from News Printing Company, Inc. and affiliates thereof, for aggregate cash consideration of approximately $16.7 million including a non-compete agreement (the "Goshen Acquisition"). The Goshen News is currently an 18,000-circulation newspaper published Monday through Sunday and serves Goshen, Indiana and surrounding areas. The Company financed the acquisition through borrowings under its bank loan agreement.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS (CONTINUED)

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:

THREE MONTHS ENDED SEPTEMBER 30,

	2000		1999	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
BROADCASTING NET REVENUES:				
Local	$15,844	38.1%	$12,384	36.9%
National	7,336	17.6	6,210	18.5
Network compensation	2,083	5.0	1,444	4.3
Political	2,418	5.8	35	0.1
Production and other	1,506	3.6	1,481	4.5
	$29,187	70.1%	$21,554	64.3%
PUBLISHING NET REVENUES:				
Retail	$ 4,567	11.0%	$ 4,259	12.7%
Classified	3,388	8.1	3,347	10.0
Circulation	1,897	4.6	1,760	5.2
Other	321	0.8	320	1.0
	$10,173	24.5%	$ 9,686	28.9%
PAGING NET REVENUES:				
Paging lease, sales and service	$ 2,250	5.4%	$ 2,290	6.8%
TOTAL	$41,610	100.0%	$33,530	100.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Broadcasting, Publishing and Paging Revenues (Continued)

	NINE MONTHS ENDED SEPTEMBER 30,			
	2000		1999	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
BROADCASTING NET REVENUES:				
Local	$ 48,014	38.8%	$ 38,286	38.3%
National	23,419	18.9	18,630	18.6
Network compensation	6,203	5.0	4,282	4.3
Political	3,715	3.0	224	0.2
Production and other	5,196	4.2	4,438	4.4
	$ 86,547	69.9%	$ 65,860	65.8%
PUBLISHING NET REVENUES:				
Retail	$ 13,864	11.2%	$ 12,243	12.2%
Classified	9,942	8.0	9,090	9.1
Circulation	5,734	4.6	4,998	5.1
Other	978	0.8	913	0.9
	$ 30,518	24.6%	$ 27,244	27.3%

PAGING				
NET REVENUES:				
Paging lease, sales and service	$ 6,841	5.5%	$ 6,847	6.9%
TOTAL	$123,906	100.0%	$ 99,951	100.0%

THREE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1999

Revenues. Total revenues for the three months ended September 30, 2000 increased $8.1 million, or 24.1%, over the same period of the prior year, to $41.6 million from $33.5 million. This increase was primarily attributable to the (i) revenues resulting from the Texas Stations that were acquired on October 1, 1999 and (ii) increased revenues from existing broadcasting and publishing operations.

Broadcasting revenues increased $7.6 million, or 35.4%, over the same period of the prior year, to $29.2 million from $21.6 million. The Texas Acquisitions accounted for an increase of $6.1 million. Political advertising revenue was $2.4 million for the three months ended September 30, 2000, compared to $35,000 for the same period of the prior year. Broadcasting revenues, excluding the results of the Texas Acquisitions, increased $1.5 million, or 7.0%, over the same period of the prior year, to $23.1 million from $21.6 million. This increase was due primarily to increased political advertising revenue of $2.4 million, partially offset by decreased local revenues of $377,000, decreased national revenues of $318,000 and decreased production and other revenues of $71,000.

Publishing revenues increased $487,000, or 5.0%, over the same period of the prior year, to $10.2 million from $9.7 million. This increase was due primarily to an increase in revenues from retail advertising, classified advertising and circulation revenues of $307,000, $41,000 and $138,000, respectively.

Paging revenues decreased $40,000, or 1.7%, over the same period of the prior year due primarily to price competition. The Company had approximately 90,000 pagers and 88,000 pagers in service at September 30, 2000 and 1999, respectively.

THREE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1999 (CONTINUED)

Operating expenses. Operating expenses for the three months ended September 30, 2000 increased $3.8 million, or 13.0%, over the same period of the prior year, to $33.0 million from $29.2 million, due primarily to increased broadcasting expenses and depreciation and amortization expense.

Broadcasting expenses for the three months ended September 30, 2000 increased $1.8 million, or 12.7%, over the same period of the prior year, to $15.6 million from $13.8 million. The acquisition of the Texas Stations accounted for an increase of $2.9 million. Broadcasting expenses, excluding the results of the Texas Stations, decreased $1.1 million, or 7.9%, to $12.8 million from $13.8 million reflecting, in part, expense reduction programs instituted by the Company during the second and third quarters of 2000.

Publishing expenses for the three months ended September 30, 2000 increased $328,000, or 4.5%, over the same period of the prior year, to $7.6 million from $7.3 million. This increase in expenses was due primarily to increased newsprint costs.

Paging expenses for the three months ended September 30, 2000 decreased $207,000, or 13.2%, over the same period of the prior year, to $1.4 million from $1.6 million. The decrease in paging expenses reflects an expense reduction plan instituted by the Company.

Corporate and administrative expenses for the three months ended September 30, 2000 decreased $195,000, or 22.4%, over the same period of the prior year to $676,000 from $870,000.

Depreciation of property and equipment and amortization of intangible assets was $7.8 million for the three months ended September 30, 2000, as compared to $5.7 million for the same period of the prior year, an increase of $2.1 million, or 37.2%. This increase was primarily the result of higher depreciation and amortization costs related to the acquisition of the Texas Stations.

Miscellaneous income. Miscellaneous income for the three months ended September 30, 2000 was $155,000 compared to $104,000 of miscellaneous income for the three months ended September 30, 1999.

Interest expense. Interest expense increased $3.0 million, or 41.5%, to $10.1 million for the three months ended September 30, 2000 from $7.1 million for the three months ended September 30, 1999. This increase was attributable primarily to increased levels of debt resulting from the financing of the acquisition of the Texas Stations and to increased interest rates on the Company's variable interest rate debt.

Income tax benefit. Income tax benefit for the three months ended September 30, 2000 and September 30, 1999 was $217,000 and $755,000, 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 third quarter of the prior year.

Net loss available to common stockholders. Net loss available to common stockholders of the Company for the three months ended September 30, 2000 and September 30, 1999 was $1.4 million and $2.2 million, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1999

Revenues. Total revenues for the nine months ended September 30, 2000 increased $23.9 million, or 24.0%, over the same period of the prior year, to $123.9 million from $100.0 million. This increase was primarily attributable to the (i) revenues resulting from the Texas Stations that were acquired on October 1, 1999, (ii) revenues resulting from The Goshen News that was acquired on March 1, 1999 and (iii) increased revenues from existing broadcasting and publishing operations.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1999 (CONTINUED)

Broadcasting revenues increased $20.6 million, or 31.4%, over the same period of the prior year, to $86.5 million from $65.9 million. The Texas Acquisitions accounted for an increase of $17.6 million. Political advertising revenue was $3.7 million for the nine months ended September 30, 2000, compared to $224,000 for the same period of the prior year. Broadcasting revenues, excluding the results of the Texas Acquisitions, increased $3.1 million, or 4.7%, over the same period of the prior year, to $69.0 million from $65.9 million. This increase was due primarily to increases in political advertising revenue of $3.3 million, national revenues of $451,000, production and other revenues of $535,000 offset, in part, by decreased local revenues of $954,000 and decreased network compensation of $235,000.

Publishing revenues increased $3.3 million, or 12.0%, over the same period of the prior year, to $30.5 million from $27.2 million. Revenues from the Company's publishing operations, excluding The Goshen News, increased $2.5 million, or 10.4%, over the same period of the prior year, to $26.2 million from $23.8 million. The primary components of the $2.5 million increase in revenues were increases in retail advertising, classified advertising and circulation revenues of $1.2 million, $688,000 and $508,000, respectively. The Goshen News which was acquired on March 1, 1999 provided revenues of $4.3 million for the nine months ended September 30, 2000 compared to $3.5 million for the nine months ended September 30, 1999.

Paging revenues were consistent at $6.8 million for the nine months ended September 30, 2000 compared to the same period of the prior year. The Company had approximately 90,000 pagers and 88,000 pagers in service at September 30, 2000 and 1999, respectively.

Operating expenses. Operating expenses for the nine months ended September 30, 2000 increased $17.1 million, or 20.0%, over the same period of the prior year, to $102.8 million from $85.7 million, due primarily to increased broadcasting expenses, publishing expenses and depreciation and amortization expense.

Broadcasting expenses for the nine months ended September 30, 2000 increased $8.7 million, or 21.5%, over the same period of the prior year, to $49.2 million from $40.5 million. The acquisition of the Texas Stations accounted for an increase of $8.8 million. Broadcasting expenses, excluding the results of the Texas Stations, were $40.5 million in each of the respective periods reflecting, in part, expense reduction programs instituted by the Company in the second and third quarters of 2000.

Publishing expenses for the nine months ended September 30, 2000 increased $2.2 million, or 10.5%, from the same period of the prior year, to $23.2 million from $21.0 million. Expenses from the Company's publishing operations, excluding The Goshen News, increased $1.7 million, or 9.4%, over the same period of the prior year, to $20.3 million from $18.6 million. The $1.7 million increase was due primarily to payroll and transportation costs associated with increased circulation and commencement of a Sunday edition in February, 2000, at one of the Company's daily newspapers. It also reflects increases in newsprint costs. The Goshen News recorded expenses of $2.9 million for the nine months ended September 30, 2000.

Paging expenses for the nine months ended September 30, 2000 decreased $426,000, or 8.9%, over the same period of the prior year, to $4.4 million from $4.8 million. The decrease in paging expenses reflects an expense reduction plan instituted by the Company.

Corporate and administrative expenses for the nine months ended September 30, 2000 increased $84,000, or 3.3%, over the same period of the prior year, to $2.6 million. The increase was due primarily to increased payroll expense and approximately $100,000 of non-recurring charges relating to conversion and upgrades of its telecommunications systems. These increases were partially offset by decreases in supply expense, insurance expense and other general expenses.

Depreciation of property and equipment and amortization of intangible assets was $23.3 million for the nine months ended September 30, 2000, as compared to $16.8 million for the same period of the prior year, an increase of $6.5 million, or 38.7%. This increase was primarily the result of higher depreciation and amortization

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1999 (CONTINUED)

costs related to the acquisition of the Texas Stations and The Goshen News.

Miscellaneous income. Miscellaneous income for the nine months ended September 30, 2000 was $163,000 compared to $560,000 for the nine months ended September 30, 1999. The decrease in miscellaneous income of $397,000 was due primarily to the gain of $350,000 recognized upon the sale of a portion of the Southwest Georgia Shopper, Inc. in February 1999.

Interest expense. Interest expense increased $9.0 million, or 43.2%, to $29.9 million for the nine months ended September 30, 2000 from $20.9 million for the nine months ended September 30, 1999. This increase was attributable primarily to increased levels of debt resulting from the financing of the acquisition of the Texas Stations and The Goshen News and to increased interest rates on the Company's variable interest rate debt.

Income tax benefit. Income tax benefit for the nine months ended September 30, 2000 and September 30, 1999 was $2.2 million and $1.4 million, respectively. The increase in the income tax benefit was directly attributable to the increase in net loss before tax in the current period as compared to the same period of the prior year.

Net loss available to common stockholders. Net loss available to common stockholders of the Company for the nine months ended September 30, 2000 and September 30, 1999 was $7.1 million and $5.4 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital was $10.4 million and $10.3 million at September 30, 2000 and December 31, 1999, respectively. The Company's cash provided from operations was $16.8 million and $14.7 million for the nine months ended September 30, 2000 and September 30, 1999, respectively.

The Company's cash used in investing activities was $6.4 million and $25.5 million for the nine months ended September 30, 2000 and September 30, 1999, respectively. The decreased usage of $19.1 million from 1999 to 2000 was primarily due to the acquisition of The Goshen News in 1999 and no similar transactions occurring in the current period.

The Company's financing activities used $10.4 million for the nine months ended September 30, 2000 while providing $12.8 million for the nine months ended September 30, 1999. The increase in cash used in financing activities resulted primarily from increased payments on long-term debt in the current period as compared to borrowings on long-term debt to fund the acquisition of The Goshen News in 1999.

During the nine months ended September 30, 2000, the Company issued 14,175 shares of its Class A Common Stock and 85,787 shares of its Class B Common Stock from treasury to fulfill obligations under its employee benefit plan and certain employment agreements. The Company also purchased 11,361 shares of its Class B Common Stock for $142,584 during the nine months ended September 30, 2000.

Pursuant to the Company's 1992 Long Term Incentive Plan, the Company's Board of Directors authorized the issuance of options to acquire 818,500 shares of the Company's Class B Common Stock. On May 25, 2000, these options were granted to approximately 370 employees of the Company. These options will fully vest on the second anniversary of the grant date and will expire on the fifth anniversary of the grant date. The option exercise price is $10.125 per share.

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 the two.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

During the nine months ended September 30, 2000, the Company paid $4.2 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 September 30, 2000, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

At September 30, 2000, the balance outstanding and the balance available under the Company's bank loan agreement were $212.5 million and $72.5

million, respectively, and the effective interest rate on the balance outstanding was 9.6%.

On March 31, 2000, the Company's Board of Directors authorized payment of a $1.0 million fee to Bull Run Corporation, a principal shareholder of the Company, for services rendered in connection with the Company's option to purchase Bull Run's equity investment in Sarkes Tarzian. Effective as of March 1, 2000, the fee was and continues to be payable in equal monthly installments of $50,000. As of September 30, 2000, the unpaid portion of this fee was $600,000 and was included in the Company's accounts payable balance.

In the first quarter of this year, the Company initiated digital broadcasting at WRDW-TV, its CBS affiliated station located in Augusta, Georgia. On October 16, 2000, the Company announced that it had selected Harris Corporation to outfit its remaining stations with digital transmission systems, which will facilitate initiation of digital broadcasting across all of the Company's television properties. Approximately $19 million in orders of Harris equipment will include transmitters, transmission lines, antennas, digital encoders and related equipment, which will be phased in over the remainder of 2000, 2001 and early 2002. Additional costs to modify towers and transmitter buildings are currently expected to increase the total project cost to approximately $25 million.

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

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

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 and (iv) other factors described from time to time in the Company's filings with the Securities and Exchange Commission. The forward-looking statements included in this report are made only as of the date hereof. The Company undertakes no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27 - Financial Data Schedule (for SEC use only)

(b) Reports on Form 8-K

None

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: November 2, 2000 By: /s/ James C. Ryan

James C. Ryan,
Vice President and Chief Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE SEPTEMBER 30, 2000 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF GRAY COMMUNICATIONS SYSTEMS, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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