GRAY

Communications Systems, Inc.

The origin of Gray Communications Systems, Inc. dates back more than 100 years to a single, local newspaper in Albany, Georgia.

In 1967, Gray underwent its first initial public offering.

In 1992, Gray operated three television stations and one daily newspaper, which generated $24.6 million in revenue and Gray's total market capitalization was $49.6 million.

After the infusion of a significant equity investment in 1993, Gray's strategic direction changed. This change fueled both internal and external growth by improving existing operations and by leading to 10 strategic acquisitions.

Today, Gray operates 10 major network-affiliated television stations, four daily newspapers, including the original Albany, Georgia newspaper, a weekly advertising shopper in southwest Georgia, a communications and paging business and one of the largest fleets of satellite uplink trucks in the Southeast.

Revenues for 1998 totaled $128.9 million and Gray's market capitalization grew to $479.6 million. Gray has continued its tradition of 31 consecutive years of paying dividends.

How will Gray Communications Systems, Inc. continue to build stockholder value? The same way we have since 1993, by focusing on local interests to enhance the value of Gray's existing operations and, when appropriate, selectively acquiring properties that provide opportunities to strengthen stockholder value.

1998 annual report

GRAY
Communications Systems, Inc.

At a Glance

Gray Communications Systems, Inc. is a communications company whose primary mission is to provide quality news and entertainment services to the local markets in which the Company operates. Our commitment to local interests and a selective acquisition strategy provides growth opportunities, which builds long-term value for our stockholders.

The Company is currently fulfilling its primary mission by operating 10 television stations, three NBC affiliates and seven CBS affiliates, located in the southeast and midwest; four daily newspapers (one in Albany, Georgia, two in suburban Atlanta, Georgia, and one in Goshen, Indiana); a weekly advertising shopper in southwest Georgia; a communications and paging business in the Southeast and one of the largest fleets of satellite uplink trucks in the Southeast.

Gray experienced significant growth in 1998 from both existing operations and through the acquisition of Busse Broadcasting Corporation. Revenues increased 24% and Media Cash Flow [(4)] increased 22%. Excluding the impact of 1998 and 1997 acquisitions and dispositions, revenues and Media Cash Flow[(4)] increased 14% and 9%, respectively.

WKYT-TV

Channel 27

- Network Affiliation - CBS
- Market - Lexington, KY
- DMA Rank - 67
- Station Rank in DMA - 1
- TV Households - 408,000
- Population - 1.1 million

WEAU-TV

Channel 13

- Network Affiliation - NBC
- Market - La Crosse-Eau Claire, WI
- DMA Rank - 129
- Station Rank in DMA - 1
- TV Households - 179,000
- Population - 490,000

WYMT-TV

Channel 57

- Network Affiliation - CBS
- Market - Hazard, KY
- DMA Rank - 67
- Station Rank in DMA - 1
- TV Households - 167,000
- Population - 452,000

WITN-TV

Channel 7

- Network Affiliation - NBC
- Market - Greenville-New Bern-Washington, NC
- DMA Rank - 105
- Station Rank in DMA - 2
- TV Households - 238,000
- Population - 678,000

KOLN/KGIN-TV

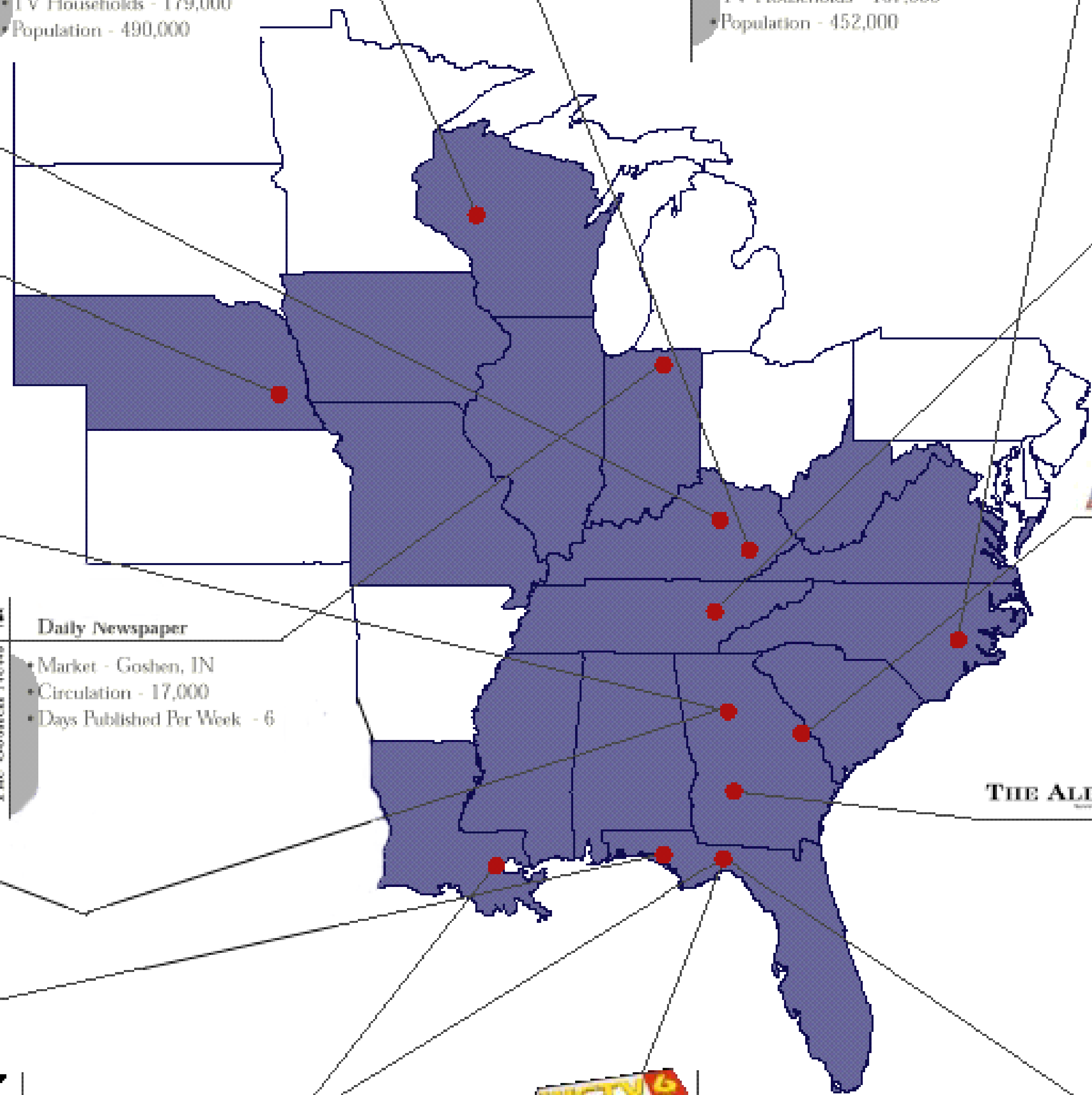
Channels 10/11

- Network Affiliation - CBS
- Market - Lincoln-Hastings-Kearney, NE
- DMA Rank - 101
- Station Rank in DMA - 1
- TV Households - 255,000
- Population - 660,000

WVLT-TV

Channel 8

- Network Affiliation - CBS
- Market - Knoxville, TN
- DMA Rank - 63
- Station Rank in DMA - 2
- TV Households - 447,000
- Population - 1.2 million



Gwinnett Daily Post

Daily Newspaper

- Market - Gwinnett County, GA
- Circulation - 64,000
- Days Published Per Week - 6

The Goshen News

Daily Newspaper

- Market - Goshen, IN
- Circulation - 17,000
- Days Published Per Week - 6

WRDW-TV

Channel 12

- Network Affiliation - CBS
- Market - Augusta, GA
- DMA Rank - 111
- Station Rank in DMA - 1
- TV Households - 228,000
- Population - 639,000

The Rockdale Citizen

Daily Newspaper

- Market - Conyers, GA
- Circulation - 11,500
- Days Published Per Week - 6

The Albany Herald

Daily Newspaper

- Market - Albany and Southwest, GA
- Circulation - 32,000 Daily and 37,000 Sunday
- Days Published Per Week - 7

WJHG-TV

Channel 7

- Network Affiliation - NBC
- Market - Panama City, FL
- DMA Rank - 157
- Station Rank in DMA - 1
- TV Households - 120,000
- Population - 324,000

Lynqx Communications

Satellite Uplink Services

- Market - Baton Rouge, LA and Tallahassee, FL
- One of the largest fleets of satellite uplink trucks in the Southeast

WCTV-TV

Channel 6

- Network Affiliation - CBS
- Market - Tallahassee, FL-Thomasville, GA
- DMA Rank - 114
- Station Rank in DMA - 1
- TV Households - 225,000
- Population - 628,000

Porta-Phone

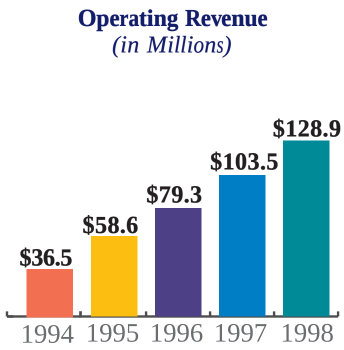
Paging Services

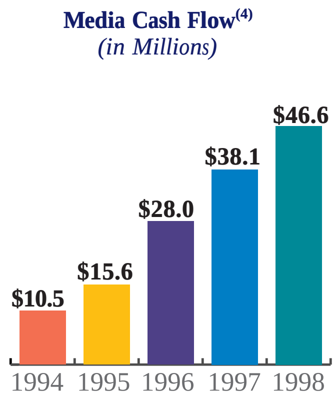
- Market - Alabama, Florida and Georgia
- Units in Service - 86,000

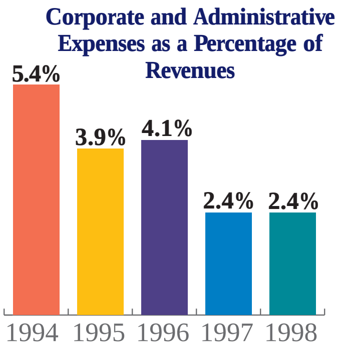
The Financial Highlights

show Gray's record of growth through existing operations and acquisitions

	Year Ended December 31,				
	1998[1]	1997[1]	1996[1]	1995[1]	1994
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Revenues	$ 128,890	$ 103,548	$ 79,305	$ 58,616	$ 36,518
Operating income[2]	24,927	20,730	16,079	6,860	6,276
Income (loss) from continuing operations	41,659	(1,402)	5,678	931	2,766
Income (loss) from continuing operations available to common stockholders	40,342	(2,812)	5,302	931	2,766
Income (loss) from continuing operations available to common stockholders per common share[3]:					
Basic	3.38	(0.24)	0.65	0.14	0.39
Diluted	3.25	(0.24)	0.62	0.14	0.39
Cash dividends per common share[3]	$ 0.06	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Other Financial Data:					
Media Cash Flow[4]	$ 46,624	$ 38,061	$ 27,952	$ 15,559	$ 10,522
Cash flow provided by (used in):					
Operating activities	20,074	9,744	12,092	7,600	5,798
Investing activities	(55,299)	(57,498)	(205,068)	(8,929)	(42,770)
Financing activities	$ 34,744	$ 49,071	$ 193,467	$ 1,331	$ 37,200
Balance Sheet Data (at end of period):					
Total assets	$ 468,974	$ 345,051	$ 298,664	$ 78,240	$ 68,789
Long-term debt (including current portion)	270,655	227,076	173,368	54,324	52,940
Total stockholders' equity	$ 126,703	$ 92,295	$ 95,226	$ 8,986	$ 5,001







(1) See Notes B and C to the Company's Audited Consolidated Financial Statements included elsewhere herein with respect to acquisitions and dispositions and the extraordinary charge incurred in 1996 with the early extinguishment of debt.

(2) Operating income excludes gain on disposition of television stations of $70.6 million recognized for the exchange of WALB-TV in 1998 and $5.7 million recognized for the sale of KTVE Inc. 1996.

(3) On August 20, 1998, the Company's Board of Directors authorized a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A and Class B Common Stock on September 16, 1998 to effect a three for two stock split. Also, on August 17, 1995, the Company's Board of Directors authorized a 50% stock dividend on the Company's Class A Common Stock payable October 2, 1995 to stockholders of record on September 8, 1995 to effect a three for two stock split. All applicable share and per share data have been adjusted to give effect to these stock splits.

(4) See Management's Discussion and Analysis "Results of Operations of the Company" included elsewhere herein for the definition of "Media Cash Flow."

To Our Stockholders

Our core strategy consists of providing quality news, information, entertainment and communications services to the local communities in which the Company operates and to selectively acquire new operations where value exists. We are pleased to report that this strategy has produced another year of significant growth. During 1998, Gray increased Media Cash Flow at its existing operations and completed the acquisition of Busse Broadcasting Corporation.

Gray builds stockholder value through its focus on the local communities in which it operates. Our commitment to providing quality services to meet the needs of our local communities allows us to have the leading television station in seven of our nine television markets. In the remaining markets we are ranked second and are striving daily to be number one. At the time of Gray's acquisition of WVLT-TV, our Knoxville, Tennessee, station did not offer news programming. During 1997, we committed ourselves to provide a quality news product to the Knoxville market. This commitment has resulted in higher ratings in 1998 for Gray's CBS affiliate in this market. Our people are determined to set the standard for news excellence in this market. The Knoxville community is recognizing our efforts to serve the local community. Gray's broadcast division reports an increase in operating revenues and Media Cash Flow of 26% for 1998.

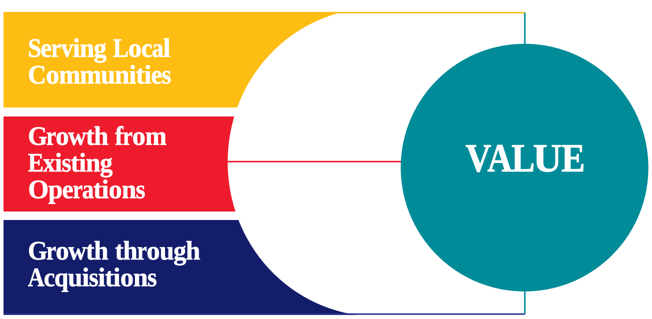
Gray's local commitment also allows us to report that The Albany Herald, where the Company first started more than 100 years ago is stronger than ever. The suburban Atlanta daily newspapers, The Rockdale Citizen and the Gwinnett Daily Post, are growing by continuing to focus on their local service areas. During 1998, the Gwinnett Daily Post significantly expanded its subscription base and thereby increased its advertising effectiveness. Gray's publishing division reports an increase in operating revenues and Media Cash Flow of 20% and 7%, respectively, for 1998, thus demonstrating management's focus on improving existing operations.

Our strong local presence provides us with a unique brand identity in each market. We are constantly using this brand identity to leverage our ability to increase our revenues and build further value in the Company.

Gray's ability to improve existing operations results directly from the experience, loyalty and commitment of our people. Gray has developed a solid team of professionals with broad experience in the print and broadcast industry to ensure the operational success of our properties. Our employees have dedicated themselves to the achievement of their operational goals as well as serving the local communities in which they operate. Through our employees' discipline, focus and dedication to the local community, Gray is able to achieve its operational goals, which result in value to our stockholders.

Selective acquisitions in growth markets provide opportunities to improve stockholder value. Gray created value in 1998 by acquiring Busse Broadcasting Corporation. This acquisition provided the Company with three market-leading television stations. Two stations, KOLN-TV serving Lincoln, Nebraska, and its satellite sister station, KGIN-TV, serving Grand Island, Nebraska, are affiliated with CBS while WEAU-TV, serving La Crosse and Eau Claire, Wisconsin, is affiliated with NBC. Lincoln and La Crosse-Eau Claire are located in the 101st and 129th television Designated Market Areas. These stations have a proven record of generating strong cash flows that translates into building future value for all stockholders. During 1998, the Company divested of WALB-TV, its NBC affiliate, in Albany, Georgia. The Company had been ordered by the Federal Communications Commission to divest of WALB-TV in order to satisfy certain ownership restrictions. While we are greatly saddened by the divestiture of WALB-TV, we believe that the $78 million received by the Company for WALB-TV represented full value for the station. The proceeds from the divestiture were immediately reinvested as part of the funds used to acquire Busse Broadcasting Corporation. We have continued our selective acquisition strategy in 1999 with the addition of The Goshen News, a 17,000 circulation, daily newspaper in Goshen, Indiana. The Goshen News has a strong local brand identity within its community. We believe The Goshen News will contribute favorably to the Company's future operations.

To create value for our stockholders, our employees and the communities we serve, we will continue to focus on three key areas:



Gray Communications Systems, Inc. has grown tremendously since 1993 and is continuing to grow. Leveraging our commitment to serve each local market to produce revenue growth and operating efficiencies has resulted in internal growth. Growth has also been achieved by a very disciplined and selective acquisition strategy. This combined approach to growth has produced increased value for all stockholders.

Our strategy has been successful. We will continue to employ this strategy to increase stockholder value in 1999.

J. Mack Robinson
President and Chief Executive Officer

Robert S. Prather, Jr.
Executive Vice President

Serving Local Communities

The origin of Gray Communications Systems, Inc. dates back more than 100 years ago to a single, local newspaper in Albany, Georgia, called The Albany Herald. The Albany Herald, Gray's flagship newspaper, started as a local newspaper serving the people of southwest Georgia. The newspaper's focus has always been and still is local news for local people. This original philosophy of focusing on local news is still the cornerstone of Gray's success in its television and publishing operations.

The cornerstone of Gray's success is local news. All of our broadcast stations and publications are strongly committed to the local communities in which they operate.

Gray's commitment to providing quality services to meet the needs of our local communities allows us to have the leading television station in seven of our nine television markets and the leading news programming in eight of our nine television markets. Each of Gray's television stations seeks to achieve a unique brand identity through its emphasis on local news programming. Strong local news generates high viewership and results in higher ratings. Increased viewership enhances revenues and Media Cash Flow, thus creating value for our stockholders.

The core strategy for Gray's publishing operations is to focus on local content in its publications. Gray's publications focus on local news, sports and lifestyle issues, which impact their local communities. This focus on local interests provides Gray's publications with a niche in their markets and fosters reader loyalty.

Our television stations and publications are committed to the local communities in which they operate. The employees at our properties are dedicated to serving their local communities. Each of our properties addresses local concerns and issues through public service programming, on-air bulletin boards, special community reports, promotional advertising, and sponsorship of community-wide events. Examples include: KOLN/KGIN's nationally award winning series of public service announcements on domestic violence, "10/11 Against The Violence"; WEAU's community service campaign "Not for Kids" which addresses the issue of alcohol abuse among children; WKYT's co-sponsorship of the "Children's Charity Golf Tournament," which is one of the highest grossing single-day charity golf tournaments in the United States; WYMT's "Mountain Basketball Classic," which

showcases local high school athletes and promotes education through the funding of scholarships to Kentucky universities; The Albany Herald's sponsorship and coordination of National Make A Difference Day in Southwest Georgia; live weather forecasts at local schools; and sponsorship of annual community events.

Through our employees' discipline, focus and dedication to the local community, Gray is able to achieve a strong local presence.

Our strong local presence provides Gray with a unique brand identity in each market. We utilize this brand identity to leverage our ability to increase revenues and build further value in the Company.

Growth from Existing Operations

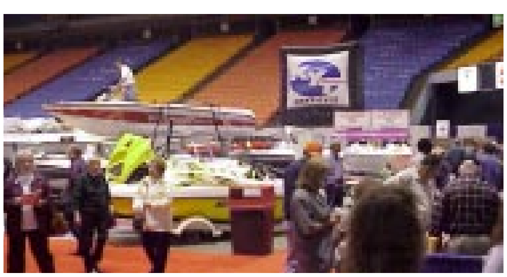
Gray's growth from existing operations has resulted from the implementation of a disciplined business strategy, which consists of five key elements: strong local presence, growing mid-sized markets, targeted marketing, innovative revenue sources and cost controls.

Gray's defined business strategy fuels Gray's growth from existing operations.

Strong local presence – The cornerstone of Gray's success is its local news franchise. Each of our television stations seeks to achieve a distinct local identity through the depth and focus of its local news programming. Strong local news generates high viewership and results in higher ratings, which increase revenues and Media Cash Flow. Gray is proud to report that we have the leading news programming in eight of our nine television markets.

Mid-sized markets – Gray's operations are located in growing mid-sized markets with expanding advertising bases. The Company's strong local presence allows us to capture a large share of each market's revenue growth. Further, we believe mid-sized markets are generally very receptive to Gray's focus on serving the needs of the local community. This allows Gray to maximize the leverage of its strong local brand identity.

Targeted marketing – Gray seeks to increase advertising revenue and Media Cash Flow by expanding existing advertiser relationships and by attracting new advertisers through targeted marketing techniques and carefully tailored programming. Company personnel work closely with advertisers to develop advertising campaigns that match specifically targeted audience segments with the advertisers' overall marketing strategies. Gray's success in increasing advertising revenues can also be attributed to the implementation of training programs for its marketing consultants that focus on innovative sales techniques. Gray trains its marketing consultants to sell not only traditional advertising, but also non-traditional advertising such as the annual Lexington, Kentucky, boat show which is sponsored and produced by WKYT-TV. Gray also benefits from sharing ideas and information for increasing advertising revenues among its stations and publications.



Innovative revenue sources – In an effort to increase revenue and Media Cash Flow, Gray has developed new, innovative revenue streams for its television stations and publications. One such example of a non-traditional revenue stream is WITN's Pinpoint Weather. WITN-TV has teamed up with 360 Degree Communications to bring pinpoint weather sites and a mobile weather van to Eastern North Carolina. Every weather forecast on the station goes live to several local sites, including schools, for instant weather. In addition, the weather van travels daily throughout the area transmitting weather during newscasts, which allows smaller communities to receive instant weather like the larger cities. In return for the promotional fee paid by 360 Degree Communications, they receive on the air mention and their logo on the pinpoint forecast map and the weather van. Several of Gray's other stations have also implemented weather vans in their operations. WJHG's operations now utilize a helicopter to improve their local news coverage and perform promotional activities. The helicopter also provides WJHG-TV with an additional revenue stream by the leasing of the helicopter for aerial photos.

Cost controls – Through our strategic planning and annual budgeting processes, we continually strive to identify and implement cost saving opportunities at each of our properties in order to maximize Media Cash Flow. Gray closely monitors expenses incurred by each of its properties and continually reviews their performance and productivity. In addition, our ownership of multiple stations and publications has led to benefits in negotiating favorable terms with programming syndicators, newsprint suppliers, national sales representatives and other vendors.

Growth through Acquisitions

After the infusion of a significant equity investment in 1993, Gray's strategic direction changed. This change in direction has led to the completion of 10 strategic acquisitions (consisting of 17 properties in the Southeast and Midwest) totaling $459 million.

Gray's acquisition strategy is to make selective acquisitions of media properties in growth markets that offer opportunities for revenue enhancement and cost control.

Gray's acquisition strategy typically focuses on mid-sized markets that offer growth opportunities in projected population and economic statistics, which will lead to higher advertising and circulation revenues. Gray evaluates each acquisition to determine the potential for improvements in revenue enhancement, audience share and cost control.

During 1998, Gray completed the acquisition of all of the outstanding capital stock of Busse Broadcasting Corporation. Immediately prior to the acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV from Busse and exchanged them for the assets of WALB-TV, Inc., Gray's NBC affiliate in Albany, Georgia. With the completion of these transactions, Gray added to its existing broadcast group: KOLN-TV, the CBS affiliate serving the Lincoln-Hastings-Kearney, Nebraska market, its satellite station KGIN-TV, the CBS affiliate serving Grand Island, Nebraska; and WEAU-TV, an NBC affiliate serving the La Crosse-Eau Claire, Wisconsin market. In March 1999, the Company continued its acquisition strategy by purchasing The Goshen News, a 17,000 circulation, daily newspaper serving Goshen, Indiana.

In adherence to Gray's acquisition strategy, KOLN/KGIN and WEAU are located in growing mid-sized markets, maintain dominant market positions and have strong news ratings. The economic vitality of the Lincoln-Hastings-Kearney, Nebraska and the La Crosse-Eau Claire, Wisconsin markets are also positively influenced by the University of Nebraska and the University of Wisconsin at Eau Claire. As a state capital, Lincoln brings further positive economic influences to that market.

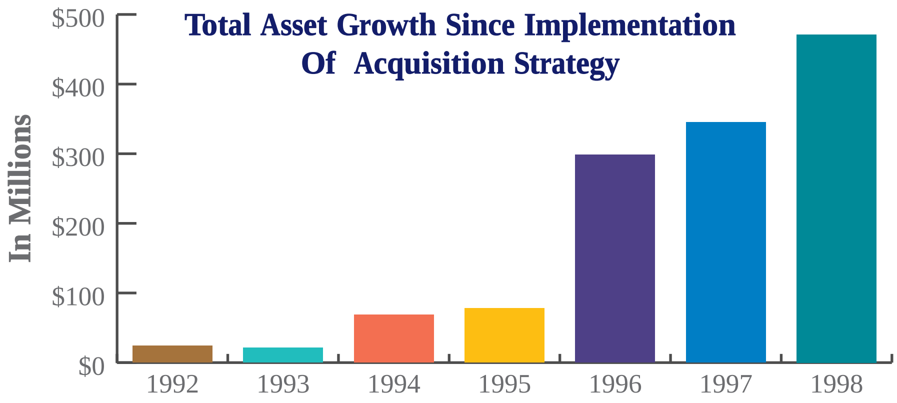
A disciplined, selective acquisition strategy has played a vital role in our growth.

Gray has selectively acquired broadcast stations and publications in adherence to its disciplined and selective acquisition strategy. We have targeted acquisitions where specific opportunities for maximizing revenue and minimizing costs have existed. We have utilized our management team's significant media experience and the size of our overall group of properties to improve operating efficiencies.

The success of Gray's acquisition strategy is clearly illustrated by the 1994 acquisition of WKYT-TV and WYMT-TV. As a result of Gray's acquisition strategy and the improvement of operations at WKYT-TV and WYMT-TV, their combined gross margin percentage has improved from 31% prior to the acquisition to 41% at December 31, 1998.

Gray has a proven growth record and is positioned to capitalize on future opportunities.

In 1992, Gray operated three television stations and one daily newspaper, which generated $24.6 million in revenue. Today, Gray operates 10 major network-affiliated television stations, four daily newspapers, a weekly advertising shopper, a communications and paging business and one of the largest fleets of satellite uplink trucks in the Southeast. Gray's 1998 revenues totaled $128.9 million.



During 1998 Gray modified its existing bank loan agreement to increase the committed $125 million credit limit to $200 million. This modification also allows for an additional uncommitted $100 million in available credit in addition to the committed $200 million credit limit. The Company can only borrow the $100 million in uncommitted available credit after approval of the bank consortium. This bank loan agreement helps position Gray with the financial resources and flexibility to capitalize on future acquisition opportunities.

VALUE

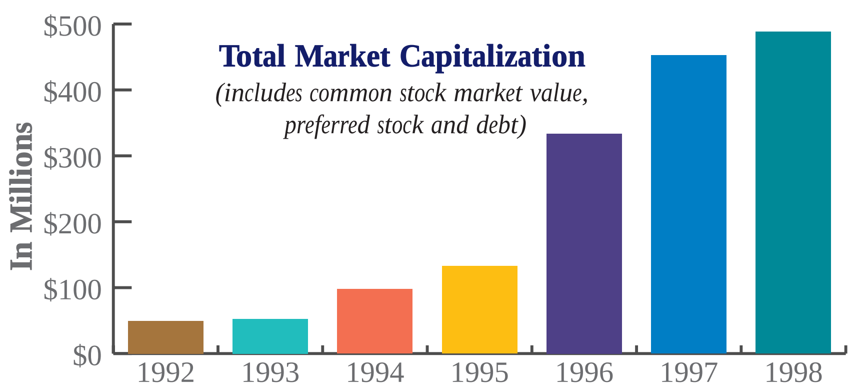
Stock Trading Information

The Company's Class A and Class B Common Stock are listed and traded on The New York Stock Exchange (the "NYSE") under the symbol "GCS" and "GCS.B," respectively. The following table sets forth the high and low sale prices of the Class A and Class B Common Stock as well as the cash dividend declared for the periods indicated. On August 20, 1998, the Company's Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to this stock split.

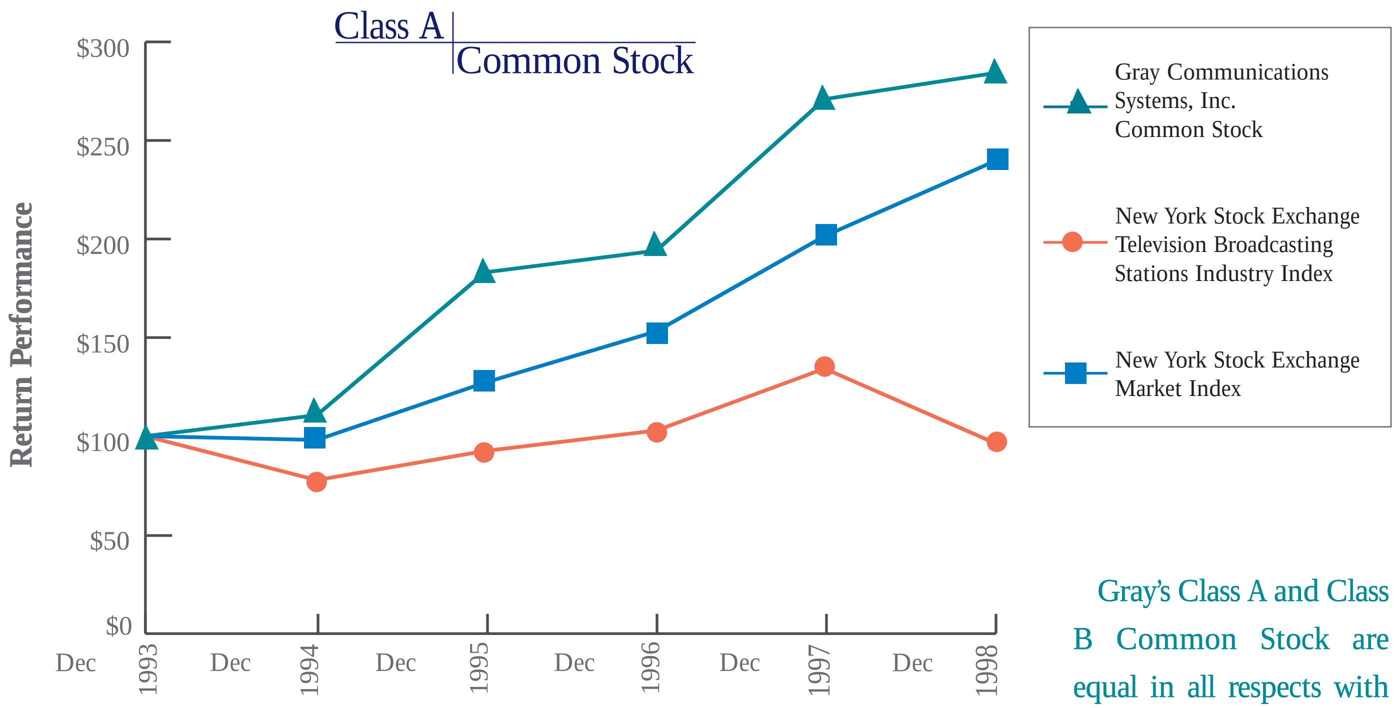
	Class A Common Stock			Class B Common Stock		
	High	Low	Cash Dividends Declared Per Share	High	Low	Cash Dividends Declared Per Share
Fiscal 1998						
First Quarter	$ 19.67	$ 16.00	$ 0.013	$ 19.33	$ 15.75	$ 0.013
Second Quarter	21.75	19.33	0.013	20.58	19.00	0.013
Third Quarter	22.00	18.83	0.013	21.50	16.54	0.013
Fourth Quarter	19.00	16.63	0.020	16.63	12.50	0.020
Fiscal 1997						
First Quarter	$ 13.83	$ 11.75	$ 0.013	$ 13.00	$ 10.92	$ 0.013
Second Quarter	14.96	11.17	0.013	13.92	10.25	0.013
Third Quarter	17.08	13.54	0.013	17.00	12.58	0.013
Fourth Quarter	18.58	16.67	0.013	17.42	16.04	0.013

As of March 11, 1999, the Company had 6,832,042 outstanding shares of Class A Common Stock held by 1,111 stockholders and 5,125,465 outstanding shares of Class B Common Stock held by 951 stockholders. The number of stockholders includes stockholders of record and individual participants in security position listings as furnished to the Company.

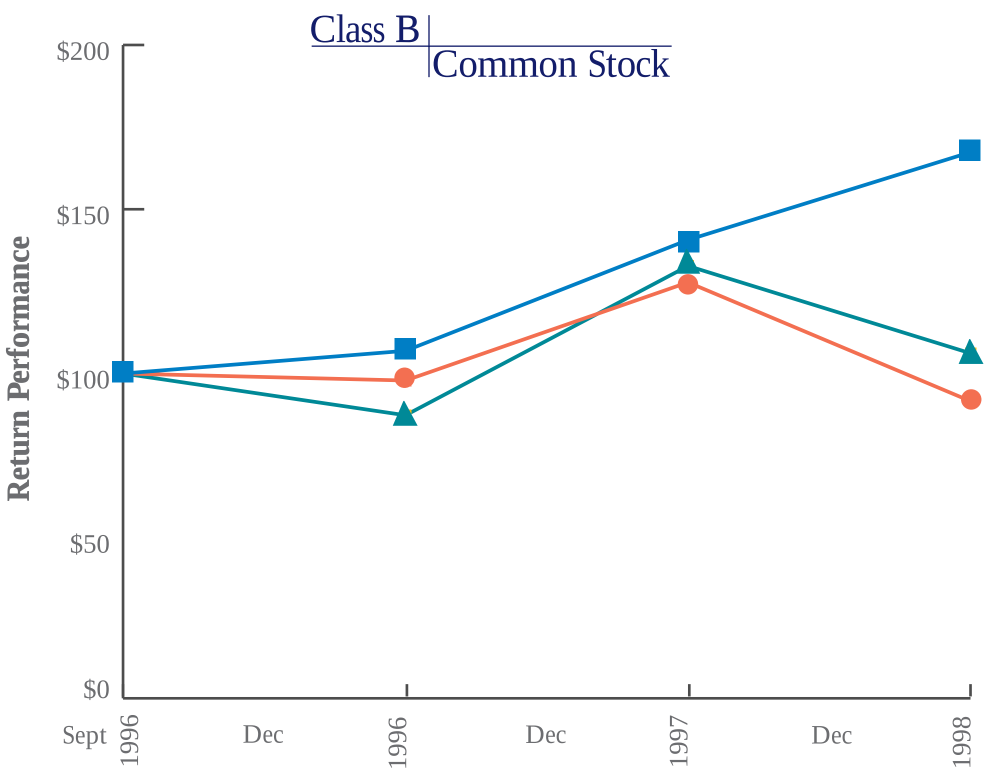
The Company has paid a dividend on its Class A Common Stock since 1967. The Company's Class A Common Stock and Class B Common Stock receive dividends on a *pari passu* basis. There can be no assurance of the Company's ability to continue to pay any dividends on either class of Common Stock.



Stock Performance



Gray's Class A and Class B Common Stock are equal in all respects with regards to dividends and liquidation preferences. The only distinction between these two classes of common stock is voting rights. Each share of Class A Common Stock is entitled to 10 votes per share and each share of Class B Common Stock is entitled to one vote per share.



The registration of the Company's Class B Common Stock occurred on September 24, 1996.

Leadership

The operational and financial strengths of a company depend largely on its leadership. Gray's executives bring years of proven experience to the Company.

J. Mack Robinson – Mack Robinson has been the Company's President and Chief Executive Officer since 1996. He is Chairman of the Board of Bull Run Corporation, Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company, Chairman of the Board of Atlantic American Corporation, an insurance holding company, and director *emeritus* of Wachovia Corporation. Over his career, he has started or controlled more than 20 community banks, a chain of more than 100 consumer lending offices, the Rhodes Inc. furniture chain, life and casualty insurance companies, lumber mills, a pest control company and a thoroughbred breeding farm.

Robert S. Prather, Jr. – Bob Prather has been the Company's Executive Vice President since 1996. Bob is President and Chief Executive Officer of Bull Run Corporation. He was Vice President of Fuqua Industries from 1971 through 1980, responsible for the search, analysis and negotiation of approximately 35 Fuqua acquisitions. He acquired his own business in 1980, a steel fabricator, growing it internally from $4 million in sales in 1980 to more than $75 million in 1992, with 10 years of profitable earnings.

James C. Ryan – Jim Ryan has been the Company's Vice President-Finance and Chief Financial Officer since October 1998. Jim had been the Chief Financial Officer of Busse Broadcasting Corporation since 1987. Busse Broadcasting Corporation was acquired by the Company in 1998.

Thomas J. Stultz – Tom Stultz has been a Vice President of the Company and President of the Company's Publishing Division since 1996. Prior to joining the Company, Tom was a Vice President of Multimedia, Inc., having responsibility for developing and coordinating Multimedia's newspaper marketing initiatives and directly supervising several Multimedia daily and non-daily publications. Tom has 29 years of experience in the newspaper industry.

Robert A. Beizer – Bob Beizer has served as Gray's Vice President for Law and Development and Secretary since 1996. Prior to joining the Company, Bob was of counsel to Venable, Baetjer, Howard & Civiletti's Regulatory and Legislative Practice Group. From 1990 to 1994, he was a partner in the law firm of Sidley & Austin and was head of their communications practice group in Washington, D.C. Bob has represented newspaper and broadcasting companies, including the Company, before the Federal Communications Commission for more than 25 years. He is a past president of the Federal Communications Bar Association and has served as a member of the ABA House of Delegates.

Wayne M. Martin – Wayne Martin has served as the Company's Regional Vice President-Television since July 1998. He was also appointed President of WVLT-TV, the Company's subsidiary in Knoxville, Tennessee. Wayne has served as President of Gray Kentucky Television, Inc., a subsidiary of the Company, which operates WKYT-TV, in Lexington, Kentucky, and WYMT-TV, in Hazard, Kentucky, since 1994. Wayne has more than twelve years of experience in the broadcast industry.

Management's Discussion and Analysis

Results of Operations of the Company

Introduction

The following analysis of the financial condition and results of operations of Gray Communications Systems, Inc. (the "Company") should be read in conjunction with the Company's Audited Consolidated Financial Statements and notes thereto included elsewhere herein.

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was $120.5 million less the accreted value of Busse's 11 5/8% Senior Secured Notes due 2000 ("Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of $112.0 million, associated transaction costs of $2.9 million and Busse's cash and cash equivalents of $5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately $69.9 million. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $122.8 million.

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at $66.0 million, and approximately $12.0 million in cash for a total value of $78.0 million. The Company recognized a pre-tax gain of approximately $70.6 million and estimated deferred income taxes of approximately $27.5 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through its $200.0 million bank loan agreement (the "Senior Credit Facility"). The transactions described above are referred to herein as the "Busse-WALB Transactions."

On August 1, 1997 the Company purchased substantially all of the assets of WITN-TV ("WITN"), the NBC affiliate in the Greenville-New Bern-Washington, North Carolina market (the "WITN Acquisition"). The WITN Acquisition purchase price of approximately $41.7 million consisted of $40.7 million cash, $600,000 in acquisition related costs and approximately $400,000 in liabilities that were assumed by the Company. On April 24, 1997, the Company purchased all of the issued and outstanding common stock of GulfLink Communications, Inc. (the "GulfLink Acquisition"), which is in the transportable satellite uplink business, a business in which the Company was already engaged. The GulfLink Acquisition purchase price of approximately $5.2 million consisted of $4.1 million cash, $127,000 in acquisition related costs and approximately $1.0 million in liabilities that were assumed by the Company. During 1998, the Company consolidated all of its transportable satellite uplink operations under the name Lynqx Communications, Inc.

In September 1996, the Company acquired substantially all of the assets of WKXT-TV ("WKXT"), WCTV-TV ("WCTV"), a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). The purchase price of approximately $183.9 million consisted of $175.5 million cash, $1.8 million in acquisition related costs and the assumption of approximately $6.6 million of liabilities. Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT"). On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV (the "Augusta Acquisition"). The purchase price of approximately $37.2 million included assumed liabilities of approximately $1.3 million. The First American Acquisition and the Augusta Acquisition are collectively referred to as the "1996 Acquisitions."

The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, Louisiana-El Dorado, Arkansas on August 20, 1996. The sales price included $9.5 million in cash plus the amount of the accounts

Management's Discussion and Analysis *(continued)*

Results of Operations of the Company *(continued)*

Introduction *(continued)*
receivable on the date of closing to the extent collected by the buyer, to be paid to the Company within 150 days following the closing date (approximately $829,000). The Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million in connection with the sale.

As a result of these acquisitions, the proportion of the Company's revenues derived from television broadcasting has increased significantly. The Company anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further as a result of the completed acquisitions. As a result of the higher operating margins associated with the Company's television broadcasting operations, the profit contribution of these operations as a percentage of revenues, has exceeded, and is expected to continue to exceed, the profit contributions of the Company's publishing and paging operations. Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Company's television broadcasting, publishing and paging operations (dollars in thousands).

	Year Ended December 31,					
	1998		1997		1996	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Broadcasting						
Revenues	$91,007	70.6%	$72,300	69.8%	$54,981	69.3%
Operating income (1)	23,327	83.1%	19,309	82.9%	16,989	84.0%
Publishing						
Revenues	$29,330	22.8%	$24,536	23.7%	$22,845	28.8%
Operating income (1)	3,579	12.8%	2,810	12.1%	3,167	15.7%
Paging						
Revenues	$ 8,553	6.6%	$ 6,712	6.5%	$ 1,479	1.9%
Operating income (1)	1,161	4.1%	1,181	5.0%	71	0.3%

(1) Represents income before miscellaneous income (expense), allocation of corporate overhead, interest expense, income taxes and extraordinary charge. Operating income excludes gain on disposition of television stations of $70.6 million recognized for the exchange of WALB in 1998 and $5.7 million recognized for the KTVE Sale in 1996.

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

Management's Discussion and Analysis *(continued)*

Results of Operations of the Company *(continued)*

Introduction (*continued)*

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

Most broadcast advertising contracts are short-term, and generally run only for a few weeks. Approximately 52% of the gross revenues of the Company's television stations for the year ended December 31, 1998, were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts, and the remainder represented primarily by national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising.

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

The Company's publishing operations' advertising contracts are generally entered into annually and provide for a commitment as to the volume of advertising to be purchased by an advertiser during the year. The publishing operations' advertising revenues are primarily generated from local advertising. As with the broadcasting operations, the publishing operations' revenues are generally highest in the second and fourth quarters of each year.

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

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

Management's Discussion and Analysis *(continued)*

Results of Operations of the Company *(continued)*

Introduction (continued)

The following table sets forth certain operating data for the broadcast, publishing and paging operations for the years ended December 31, 1998, 1997 and 1996 (in thousands).

	Year Ended December 31,		
	1998	1997	1996
Operating income (1)	$ 24,927	$ 20,730	$ 16,079
Add:			
Amortization of program license rights	4,251	3,501	2,743
Depreciation and amortization	18,117	14,519	7,663
Corporate overhead	3,063	2,528	3,219
Non-cash compensation and contribution to 401(k) plan, paid in Common Stock	476	412	1,125
Less:			
Payments for program license liabilities	(4,210)	(3,629)	(2,877)
Media Cash Flow (2)	$ 46,624	$ 38,061	$ 27,952

(1) Operating income excludes gain on disposition of television stations of $70.6 million recognized for the exchange of WALB in 1998 and $5.7 million recognized for the KTVE Sale in 1996.

(2) Of Media Cash Flow, $38.4 million, $30.5 million and $22.6 million was attributable to the Company's broadcasting operations in 1998, 1997 and 1996, respectively; $5.2 million, $4.9 million and $5.0 million was attributable to the Company's publishing operations in 1998, 1997 and 1996, respectively; and $3.0 million, $2.7 million and $401,000 was attributable to the Company's paging operations in 1998, 1997 and 1996, respectively.

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

Cash flow provided by (used in) operating, investing and financing activities

The following table sets forth certain cash flow data for the Company for the years ended December 31, 1998, 1997 and 1996 (in thousands).

	Year Ended December 31,		
	1998	1997	1996
Cash flows provided by (used in)			
Operating activities	$ 20,074	$ 9,744	$ 12,092
Investing activities	(55,299)	(57,498)	(205,068)
Financing activities	34,744	49,071	193,467

Management's Discussion and Analysis *(continued)*

Results of Operations of the Company *(continued)*

Broadcasting, Publishing and Paging Revenues

As discussed in the *Introduction*, the Company exchanged the assets of WALB for the assets of WEAU and acquired Busse which included KOLN-TV ("KOLN") and KGIN-TV ("KGIN") during 1998. The Company completed the WITN Acquisition and the GulfLink Acquisition during 1997. WEAU, KOLN and KGIN are collectively referred to as the "Busse Stations." Set forth below are the principal types of broadcasting, publishing and paging revenues earned by the Company's television stations, publishing and paging operations for the periods indicated and the percentage contribution of each of the Company's total broadcasting, publishing and paging revenues, respectively (dollars in thousands):

	Year Ended December 31,					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Broadcasting						
Net Revenues:						
Local	$ 47,258	36.7%	$ 40,486	39.1%	$ 30,046	37.9%
National	23,824	18.5%	21,563	20.8%	15,611	19.7%
Network compensation	5,549	4.3%	4,977	4.8%	3,661	4.6%
Political	7,876	6.1%	137	0.1%	3,612	4.6%
Production and other	6,500	5.0%	5,137	5.0%	2,051	2.5%
	$ 91,007	70.6%	$ 72,300	69.8%	$ 54,981	69.3%
Publishing						
Revenues:						
Retail	$ 14,159	11.0%	$ 11,936	11.5%	$ 11,090	14.0%
Classifieds	9,106	7.1%	7,344	7.1%	6,150	7.8%
Circulation	5,315	4.1%	4,779	4.6%	4,271	5.4%
Other	750	0.6%	477	0.5%	1,334	1.6%
	$ 29,330	22.8%	$ 24,536	23.7%	$ 22,845	28.8%
Paging						
Revenues:						
Paging lease, sales and service	$ 8,553	6.6%	$ 6,712	6.5%	$ 1,479	1.9%
Total	$128,890	100.0%	$103,548	100.0%	$ 79,305	100.0%

Year Ended December 31, 1998 to Year Ended December 31, 1997

Revenues. Total revenues for the year ended December 31, 1998 increased $25.3 million, or 24.5%, over the same period of the prior year, from $103.5 million to $128.9 million. This increase was primarily attributable to the net effect of (i) increased revenues resulting from the acquisition of the Busse Stations and the WITN Acquisition, (ii) increased political revenue, (iii) increased publishing revenues and (iv) increased paging revenues partially offset by decreased revenues resulting from the disposition of WALB.

Broadcast net revenues increased $18.7 million, or 25.9%, over the same period of the prior year, to $91.0 million from $72.3 million. The acquisition of the Busse Stations and the WITN Acquisition accounted for $9.3 million and $5.5 million of the broadcast net revenue increase, respectively. On a pro forma basis, assuming the Busse-WALB Transactions had been effective on January 1, 1997, broadcast net revenues for the Busse Stations for the year ended December 31, 1998, increased $1.9 million, or 10.1%, over the same period of the prior year, to $20.9 million from $19.0 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1997, broadcast net revenues for WITN for the year ended December 31, 1998 increased $939,000, or 12.0%,

Management's Discussion and Analysis *(continued)*

Year Ended December 31, 1998 to Year Ended December 31, 1997 *(continued)*

over the same period of the prior year, to $8.8 million from $7.8 million. Broadcast net revenues, excluding the acquisition of the Busse Stations, the WITN Acquisition and the GulfLink Acquisition and excluding the operating results of WALB, increased $6.1 million, or 10.6%, over the same period of the prior year, to $63.6 million from $57.5 million. This increase was due primarily to an increase in political advertising revenue of $5.4 million. The disposition of WALB resulted in a decrease in net broadcast revenue of approximately $3.3 million.

Publishing revenues increased $4.8 million, or 19.5%, over the same period of the prior year, to $29.3 million from $24.5 million. The increase in publishing revenues was due primarily to an increase in retail advertising, classified advertising, circulation and other revenue of $2.2 million, $1.8 million, $536,000 and $273,000, respectively. The increase in retail advertising and classified advertising revenue was due primarily to linage increases.

Paging revenue increased $1.8 million or 27.4%, over the same period of the prior year, to $8.6 million from $6.7 million. The increase was attributable primarily to an increase in the number of pagers in service. The Company had approximately 86,000 pagers and 67,000 pagers in service at December 31, 1998 and 1997, respectively.

Operating expenses. Operating expenses for the year ended December 31, 1998 increased $21.1 million, or 25.5%, over the same period of the prior year, to $104.0 million from $82.8 million, due primarily to the acquisition of the Busse Stations, the WITN Acquisition, increased expenses at the Company's existing television stations (exclusive of the Busse Stations and WALB) and the expense associated with the increase in circulation at the Gwinnett Daily Post. The acquisition of the Busse Stations, the WITN Acquisition, increased expenses at existing television stations and the cost associated with the increase in circulation at the Gwinnett Daily Post accounted for $4.1 million, $3.4 million, $4.1 million and $4.1 million (exclusive of depreciation and amortization), respectively, of the operating expense increase. The increase in operating expenses was partially offset by the disposition of WALB, which reduced operating expenses by approximately $1.5 million.

Broadcast expenses increased $11.0 million, or 26.2%, over the year ended December 31, 1998, to $53.0 million from $42.0 million. The acquisition of the Busse Stations and the WITN Acquisition accounted for $4.1 million and $3.4 million of the broadcast expenses increase, respectively. On a pro forma basis, assuming the Busse-WALB Transactions had been effective on January 1, 1997, broadcast expenses for the Busse Stations for the year ended December 31, 1998, increased $802,000, or 9.2%, over the same period of the prior year, to $9.5 million from $8.7 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1997, broadcast expenses for WITN for the year ended December 31, 1998 increased $668,000, or 14.5%, over the same period of the prior year, to $5.3 million from $4.6 million. Broadcast expenses, excluding the acquisition of the Busse Stations, the WITN Acquisition and the GulfLink Acquisition and excluding the operating results of WALB, increased $4.1 million, or 11.9%, over the same period of the prior year, to $38.6 million from $34.4 million. This increase was due primarily to an increase in payroll expense and other expenses of $2.6 million and $1.3 million, respectively. The increase in broadcast expenses was partially offset by the disposition of WALB which reduced broadcast expenses by approximately $1.5 million.

Publishing expenses for the year ended December 31, 1998 increased $4.4 million, or 22.5%, from the same period of the prior year, to $24.2 million from $19.8 million. This increase resulted primarily from an increase in the expense associated with the increase in circulation at the Gwinnett Daily Post to 64,000 at December 31, 1998 from 49,000 at December 31, 1997.

Paging expenses increased $1.6 million or 38.7%, over the same period of the prior year, to $5.6 million from $4.1 million. The increase was attributable primarily to an increase in payroll and other costs associated with an increase in the number of pagers in service.

Corporate and administrative expenses increased $535,000 or 21.1%, over the same period of the prior year, to $3.1 million from $2.5 million. This increase was primarily attributable to increased payroll expense.

Management's Discussion and Analysis *(continued)*

Year Ended December 31, 1998 to Year Ended December 31, 1997 *(continued)*

Depreciation and amortization. Depreciation of property and equipment and amortization of intangible assets was $18.1 million for the year ended December 31, 1998, as compared to $14.5 million for the same period of the prior year, an increase of $3.6 million, or 24.8%. This increase was primarily the result of higher depreciation and amortization costs resulting from the WITN Acquisition and the acquisition of the Busse Stations.

Gain on disposition of television stations. The Company recognized a pre-tax gain of approximately $70.6 million and estimated deferred income taxes of approximately $27.5 million in connection with the exchange of WALB.

Interest expense. Interest expense increased $3.6 million, or 16.4%, to $25.5 million for the year ended December 31, 1998 from $21.9 million for the year ended December 31, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the acquisition of the Busse Stations and the WITN Acquisition.

Income tax expense (benefit). Income tax expense for the year ended December 31, 1998 primarily reflects the provision of approximately $27.5 million of deferred income taxes recognized in conjunction with the exchange of WALB.

Net income (loss) available to common stockholders. Net income available to common stockholders of the Company was $40.3 million for the year ended December 31, 1998, as compared with a net loss available to common stockholders of $2.8 million for the same period of the prior year, reflecting the $43.1 million gain net of related tax provisions on the exchange of WALB.

Year Ended December 31, 1997 to Year Ended December 31, 1996

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

Broadcast net revenues increased $17.3 million, or 31.5%, over the prior year, from $55.0 million to $72.3 million. The First American Acquisition, the WITN Acquisition and the GulfLink Acquisition accounted for $16.5 million, $3.3 million and $1.4 million, respectively, of the broadcast net revenue increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast net revenues for the First American Acquisition for the year ended December 31, 1997, decreased $700,000, or 3.0%, over the year ended December 31, 1996, from $23.9 million to $23.2 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1996, broadcast net revenues for the WITN Acquisition for the year ended December 31, 1997, decreased $600,000, or 7.0%, over the year ended December 31, 1996, from $8.4 million to $7.8 million. On a pro forma basis, political revenue for the First American Acquisition and the WITN Acquisition decreased $1.3 million and $650,000, respectively, over the prior year. The KTVE Sale resulted in a decrease in broadcast net revenues of $3.0 million. Broadcast net revenues, excluding the First American Acquisition, the WITN Acquisition and the GulfLink Acquisition and the operating results of KTVE, decreased $800,000, or 1.8%, over the prior year. This decrease of $800,000 resulted primarily from decreased political spending of $3.1 million partially offset by increased local advertising spending and national advertising spending of $1.5 million and $600,000, respectively.

Management's Discussion and Analysis *(continued)*

Year Ended December 31, 1997 to Year Ended December 31, 1996 *(continued)*

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

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

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

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

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

Management's Discussion and Analysis *(continued)*

Year Ended December 31, 1997 to Year Ended December 31, 1996 *(continued)*

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

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

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

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

Gain on disposition of television stations. During 1996, the Company recognized a pre-tax gain of approximately $5.7 million as a result of the KTVE Sale.

Interest expense. Interest expense increased $10.2 million, or 87.0%, from $11.7 million for the year ended December 31, 1996, to $21.9 million for the year ended December 31, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition.

Income tax expense (benefit). Income tax expense for the year ended December 31, 1996 primarily reflects the provision of approximately $2.8 million of income taxes recognized in conjunction with the KTVE Sale.

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

Net income (loss) available to common stockholders. Net loss available to common stockholders for the Company was $2.8 million for the year ended December 31, 1997, compared with net income available to common stockholders of $2.1 million for the year ended December 31, 1996, a decrease of $4.9 million, or 231.2%.

Interest Rate Risk

Based on the Company's floating rate debt outstanding at December 31, 1998, a 100 basis point increase in market rates would increase interest expense and decrease income before income taxes by approximately $1.1 million. The amount was determined by calculating the effect of the hypothetical interest rate on the Company's floating rate debt.

The fair market value of long-term fixed interest rate debt is also subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of the Company's total long-term fixed rate debt at December 31, 1998 was approximately $170.4 million which exceeded its carrying value by approximately $10.4 million. A hypothetical 100 basis point decrease in the prevailing interest rates at December 31, 1998 would result in an increase in fair value of total long-term debt by approximately $7.0 million. Fair market values are determined from quoted market prices where available or based on estimates made by the investment bankers.

Management's Discussion and Analysis *(continued)*

Liquidity and Capital Resources

The Company's working capital was $10.2 million and $10.1 million at December 31, 1998, and 1997, respectively. The Company's cash provided from operations was $20.1 million, $9.7 million and $12.1 million in 1998, 1997 and 1996, respectively. Management believes that current cash balances, cash flows from operations and the available funds under its Senior Credit Facility will be adequate to provide for the Company's capital expenditures, debt service, cash dividends and working capital requirements. The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit additional indebtedness and require minimum levels of cash flows. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined by the Senior Credit Facility, not to exceed the lender's prime rate plus 0.5% or LIBOR plus 2.25%. The Company's 10 5/8% Senior Subordinated Notes due 2006 contain restrictive provisions similar to the provisions of the Senior Credit Facility. The amount borrowed by the Company and the amount available to the Company under the Senior Credit Facility at December 31, 1998, was $109.5 million and $90.5 million, respectively.

The Company's cash used in investing activities was $55.3 million, $57.5 million and $205.1 million in 1998, 1997 and 1996, respectively. The amount of cash used in 1998 resulted primarily from the acquisition of Busse partially offset by the exchange of WALB. The decrease of $147.6 million from 1996 to 1997 was primarily due to the net impact of the WITN Acquisition and the GulfLink Acquisition in 1997 offset by the 1996 Acquisitions in 1996.

The Company was provided $34.7 million, $49.1 million and $193.5 million in cash by financing activities in 1998, 1997 and 1996, respectively. In 1998, net cash provided by financing activities resulted primarily from borrowings on long-term debt (net of repayments) of $43.5 million partially offset by redemptions of preferred stock of $7.6 million. In 1997, the decrease in cash provided by financing activities resulted primarily from the funding obtained for the 1996 Acquisitions in 1996 partially offset by the borrowings for the WITN Acquisition and the GulfLink Acquisition, purchase of treasury stock and increased payments on long-term debt in 1997. The cash provided in 1996 resulted primarily from (i) the issuance of $160.0 million principal amount of 10 5/8% Senior Subordinated Notes due 2006, (ii) borrowings under the Company's revolving credit agreements, (iii) public sale of Class B Common Stock and (iv) the private placement of preferred stock, partially offset by the repayment of certain long-term debt and the purchase of Class B Common Stock by the Company.

During 1998, 1997 and 1996, the Company purchased 30,750 Class A Common Stock shares, 259,350 Class A Common Stock shares and 258,450 Class B Common Stock shares, respectively. The 1998, 1997 and 1996 treasury shares were purchased at prevailing market prices with an average effective price of $18.95, $13.33 and $10.60 per share, respectively.

Effective July 31, 1998, the Senior Credit Facility was modified to increase the committed credit limit of $125.0 million to $200.0 million. This modification also allows for an additional uncommitted $100.0 million in available credit which is in addition to the committed $200.0 million credit limit. This $100.0 million in uncommitted available credit can be borrowed by the Company only after approval of the bank consortium. The modification also extended the maturity date from June 30, 2004 to June 30, 2005. The modification required a one-time fee of approximately $750,000.

As discussed in the *Introduction*, on July 31, 1998, the Company completed the Busse-WALB Transactions. These transactions resulted in a net increase in long-term debt of approximately $43.4 million. At December 31, 1998, the Company had approximately $109.5 million borrowed under the Senior Credit Facility with approximately $90.5 million available under the agreement. The interest rate on the balance outstanding was based on Prime and a spread over LIBOR of 1.75%.

Subject to certain limitations, holders of the Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds of the Company legally available for payment, cumulative cash dividends at an annual rate of $800 per share. Subject to certain limitations, holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of the funds of

Management's Discussion and Analysis *(continued)*

Liquidity and Capital Resources *(continued)*

the Company legally available for payment, cumulative dividends at an annual rate of $600 per share, except that the Company at its option may pay such dividends in cash or in additional shares of Series B Preferred Stock valued, for the purpose of determining the number of shares (or fraction thereof) of such Series B Preferred Stock to be issued, at $10,000 per share.

The Company regularly enters into program contracts for the right to broadcast television programs produced by others and program commitments for the right to broadcast programs in the future. Such programming commitments are generally made to replace expiring or canceled program rights. Payments under such contracts are made in cash or the concession of advertising spots for the program provider to resell, or a combination of both. At December 31, 1998, payments on program license liabilities due in 1999, which will be paid with cash from operations, were approximately $4.6 million.

In 1998, the Company made $9.3 million in capital expenditures, relating primarily to the broadcasting and publishing operations, and paid $4.2 million for program broadcast rights. The Company anticipates making $10.0 million in capital expenditures in 1999.

In connection with the First American Acquisition, the Federal Communications Commission (the "FCC") ordered the Company to divest itself of WALB and WJHG-TV ("WJHG") by March 31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC will complete its rulemaking on this subject. On July 31, 1998, the assets of WALB were exchanged for the assets of WEAU. This exchange transaction satisfied the FCC's divestiture requirement for WALB.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of December 31, 1998, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

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

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 News is a 17,000 circulation afternoon newspaper published Monday through Saturday and serves Goshen, Indiana and surrounding areas. The Company funded this acquisition through its Senior Credit Facility.

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for $10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights), but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian. Tarzian has filed a complaint in the United States District Court for the Southern District of Indiana, claiming that it had a binding contract with the Estate to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requests judgment providing that the Estate be required to sell the Tarzian Shares to Tarzian. Bull Run believes that a binding contract between Tarzian and the Estate did not exist, prior to Bull Run's purchase of the Tarzian Shares from the Estate, and in any case, Bull Run's purchase agreement with the Estate provides that in the event that a court of competent jurisdiction awards title to the Tarzian Shares to a person or entity other than Bull Run, the purchase agreement is rescinded and the Estate is required to pay Bull Run the full $10.0 million purchase price, plus interest. Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and

Management's Discussion and Analysis *(continued)*

Liquidity and Capital Resources *(continued)*

Reno markets rank as the 87th and the 108th largest television markets in the United States, respectively, as ranked by A. C. Nielsen Company.

The Company has executed an option agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian investment from Bull Run. Upon exercise of the option, the Company will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment and related costs. The option agreement currently expires on May 31, 1999; however, the Company may extend the option period at an established fee. In connection with the option agreement, the Company granted to Bull Run warrants to purchase up to 100,000 shares of the Company's Class B Common Stock at $13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian investment. Neither Bull Run's investment nor the Company's potential investment is presently attributable under the ownership rules of the FCC. If the Company successfully exercises the option agreement, the Company plans to fund the acquisition through its Senior Credit Facility.

Year 2000 Issue

The problems created by systems that are unable to interpret dates accurately after December 31, 1999 is referred to as the "Year 2000 Issue." Many software programs have historically categorized the "year" in a two-digit format rather than a four-digit format. As a result, those computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. The Year 2000 Issue creates potential risks for the Company, including potential problems in the Company's Information Technology ("IT") and non-IT systems. The Year 2000 Issue could cause a system failure, miscalculations or disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. The Company may also be exposed to risks from third parties who fail to adequately address their own Year 2000 Issue.

The Company has implemented a multiphase program designed to address the Year 2000 Issue. Each phase of this program and its state of completion is described below:

Assessment: This phase of the program includes the identification of the Company's IT and non-IT systems. After these systems have been identified, they are evaluated to determine whether they will correctly recognize dates after December 31, 1999 ("Year 2000 Compliant"). If it is determined that they are not Year 2000 Compliant, they are replaced or modified in the *Remediation* phase of the program. The majority of the Company's systems are non-proprietary. The Company is in the process of obtaining from each system vendor a written or oral representation as to each significant system's status of compliance. The Company has commenced an ongoing process of contacting suppliers and other key third parties to assess their Year 2000 Compliance status. It appears that all of these third parties are currently Year 2000 Compliant or they plan to be Year 2000 Compliant prior to December 31, 1999. This phase is substantially complete and the Company has identified the majority of the systems that need to be replaced.

Remediation: For those systems which are not Year 2000 Compliant, a plan is derived to make the systems Year 2000 Compliant. These solutions have included modification or replacement of existing systems. The *Remediation* phase is approximately 50% complete.

Testing: Test remediated systems to assure normal function when placed in their original operating environment and further test for Year 2000 Compliance. The *Testing* phase of the program is approximately 25% complete and the Company anticipates that it will be completed by September 30, 1999.

Contingency: As a result of the Company's Year 2000 Compliance program, the Company does not believe that it has significant risk resulting from this issue. However, the Company is in the process of developing contingency plans for the possibility that one of its systems or one of a third party's systems may

Management's Discussion and Analysis *(continued)*

Year 2000 Issue *(continued)*

not be Year 2000 Compliant. The Company believes that the most reasonable likely worst case scenario is a temporary loss of functionality at one or more of the Company's operating units. In the unlikely event that this were to occur, the Company would experience decreased revenue and slightly higher operating costs at the affected location. However, due to the decentralized nature of the Company's operations, it is not likely that all locations would be affected by a single non-functioning system.

The Company does not presently believe that the estimated total Year 2000 project cost will exceed $750,000. Most of this cost will be realized over the estimated useful lives of the new hardware and software; however, any third party consulting fees would be expensed in the period the services are rendered. To date, the Company has identified several minor systems that are not Year 2000 Compliant and these systems are in the process of being replaced. However, the Company has not incurred significant expenses associated with the Year 2000 Issue. As of December 31, 1998, no IT projects have been deferred due to the Company's efforts related to the Year 2000 Issue.

The costs of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act

This annual report 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.

Consolidated Balance Sheets

	December 31, 1998	December 31, 1997
Assets		
Current assets:		
Cash and cash equivalents	$ 1,886,723	$ 2,367,300
Trade accounts receivable, less allowance for doubtful accounts of $1,212,000 and $1,253,000, respectively	22,859,119	19,527,316
Recoverable income taxes	1,725,535	2,132,284
Inventories	1,191,284	846,891
Current portion of program broadcast rights	3,226,359	2,850,023
Other current assets	741,007	968,180
Total current assets	31,630,027	28,691,994
Property and equipment *(Notes B and C):*		
Land	2,196,021	889,696
Buildings and improvements	12,812,112	11,951,700
Equipment	65,226,835	52,899,547
	80,234,968	65,740,943
Allowance for depreciation	(28,463,460)	(23,635,256)
	51,771,508	42,105,687
Other assets:		
Deferred loan costs *(Note C)*	8,235,432	8,521,356
Goodwill and other intangibles *(Note B)*	376,014,972	263,425,447
Other	1,322,483	2,306,143
	385,572,887	274,252,946
	$468,974,422	$345,050,627

	December 31, 1998	December 31, 1997
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable (includes $880,000 and $850,000 payable to Bull Run Corporation, respectively)	$ 2,540,770	$ 3,321,903
Employee compensation and benefits	5,195,777	3,239,694
Accrued expenses	1,903,226	2,265,725
Accrued interest	5,608,134	4,533,366
Current portion of program broadcast obligations	3,070,598	2,876,060
Deferred revenue	2,632,564	1,966,166
Current portion of long-term debt	430,000	400,000
Total current liabilities	21,381,069	18,602,914
Long-term debt *(Notes B and C)*	270,225,255	226,676,377
Other long-term liabilities:		
Program broadcast obligations, less current portion	735,594	617,107
Supplemental employee benefits *(Note D)*	1,128,204	1,161,218
Deferred income taxes *(Note G)*	44,147,642	1,203,847
Other acquisition related liabilities *(Note B)*	4,653,788	4,494,016
	50,665,228	7,476,188
Commitments and contingencies *(Notes B, C and I)*		
Stockholders' equity *(Notes B, C and E)*		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued and outstanding 1,350 and 2,060 shares, respectively ($13,500,000 and $20,600,000 aggregate liquidation value, respectively)	13,500,000	20,600,000
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 7,961,574 shares, respectively	10,683,709	10,358,031
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 5,273,046 shares, respectively	66,792,385	66,397,804
Retained earnings	45,737,601	6,603,191
	136,713,695	103,959,026
Treasury Stock at cost, Class A Common, 1,129,532 and 1,172,882 shares, respectively	(8,578,682)	(9,011,369)
Treasury Stock at cost, Class B Common, 135,080 and 250,185 shares, respectively	(1,432,143)	(2,652,509)
	126,702,870	92,295,148
	$468,974,422	$345,050,627

See accompanying notes.

Consolidated Statements of Operations

	Year Ended December 31, 1998	1997	1996
Operating revenues:			
Broadcasting (less agency commissions)	$ 91,006,506	$ 72,300,105	$ 54,981,317
Publishing	29,330,080	24,536,348	22,845,274
Paging	8,552,936	6,711,426	1,478,608
	128,889,522	103,547,879	79,305,199
Expenses:			
Broadcasting	52,967,142	41,966,493	32,438,405
Publishing	24,197,169	19,753,387	17,949,064
Paging	5,618,421	4,051,359	1,077,667
Corporate and administrative	3,062,995	2,528,461	3,218,610
Depreciation	9,690,757	7,800,217	4,077,696
Amortization of intangible assets	8,425,821	6,718,302	3,584,845
Non-cash compensation paid in common stock *(Note D)*	-0-	-0-	880,000
	103,962,305	82,818,219	63,226,287
	24,927,217	20,729,660	16,078,912
Gain on disposition of television stations (net of $780,000 paid to Bull Run Corporation in 1998) *(Note B)*	70,572,128	-0-	5,671,323
Miscellaneous income and (expense), net	(241,522)	(30,851)	33,259
	95,257,823	20,698,809	21,783,494
Interest expense	25,454,476	21,861,267	11,689,053
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CHARGE	69,803,347	(1,162,458)	10,094,441
Federal and state income taxes *(Note G)*	28,143,981	240,000	4,416,000
INCOME (LOSS) BEFORE EXTRAORDINARY CHARGE	41,659,366	(1,402,458)	5,678,441
Extraordinary charge on extinguishment of debt, net of applicable income tax benefit of $2,157,000 *(Note C)*	-0-	-0-	3,158,960
NET INCOME (LOSS)	41,659,366	(1,402,458)	2,519,481
Preferred dividends *(Note E)*	1,317,830	1,409,690	376,849
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$40,341,536	$ (2,812,148)	$ 2,142,632
Average outstanding common shares-basic	11,922,852	11,852,546	8,097,654
Stock compensation awards	481,443	-0-	340,668
Average outstanding common shares-diluted	12,404,295	11,852,546	8,438,322
Basic earnings per common share:			
Income (loss) before extraordinary charge available to common stockholders	$ 3.38	$ (0.24)	$ 0.65
Extraordinary charge	-0-	-0-	(0.39)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 3.38	$ (0.24)	$ 0.26
Diluted earnings per common share:			
Income (loss) before extraordinary charge available to common stockholders	$ 3.25	$ (0.24)	$ 0.62
Extraordinary charge	-0-	-0-	(0.37)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 3.25	$ (0.24)	$ 0.25

See accompanying notes.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	1998	1997	1996
Operating activities			
Net income (loss)	$ 41,659,366	$ (1,402,458)	$ 2,519,481
Items which did not use (provide) cash:			
Depreciation	9,690,757	7,800,217	4,077,696
Amortization of intangible assets	8,425,821	6,718,302	3,584,845
Amortization of deferred loan costs	1,097,952	1,083,303	270,813
Amortization of program broadcast rights	4,250,714	3,501,330	2,742,712
Amortization of original issue discount on 8% subordinated note	-0-	-0-	216,667
Write-off of loan acquisition costs from early extinguishment of debt	-0-	-0-	1,818,840
Gain on disposition of television stations	(70,572,128)	-0-	(5,671,323)
Payments for program broadcast rights	(4,209,811)	(3,629,350)	(2,877,128)
Compensation paid in Common Stock	-0-	-0-	880,000
Supplemental employee benefits	(252,611)	(196,057)	(855,410)
Common Stock contributed to 401(K) Plan	491,524	419,670	262,426
Deferred income taxes	26,792,795	1,283,000	(44,000)
Loss on asset sales	332,042	108,998	201,792
Changes in operating assets and liabilities:			
Trade accounts receivable	(302,905)	(369,675)	(1,575,723)
Recoverable income taxes	406,749	(384,597)	(400,680)
Inventories	(344,393)	(101,077)	254,952
Other current assets	342,674	(569,745)	(21,248)
Trade accounts payable	(797,447)	(2,825,099)	2,256,795
Employee compensation and benefits	1,283,150	(2,848,092)	2,882,379
Accrued expenses	79,644	1,279,164	(2,936,155)
Accrued interest	1,074,768	(325,409)	3,794,284
Deferred revenue	625,149	201,657	710,286
Net cash provided by operating activities	20,073,810	9,744,082	12,092,301
Investing activities			
Acquisition of television businesses	(122,455,774)	(45,644,942)	(210,944,547)
Disposition of television business	76,440,419	-0-	9,480,699
Purchases of property and equipment	(9,270,623)	(10,371,734)	(3,395,635)
Proceeds from asset sales	318,697	24,885	174,401
Deferred acquisition costs	-0-	(89,056)	-0-
Payments on purchase liabilities	(551,917)	(764,658)	(243,985)
Other	220,390	(652,907)	(139,029)
Net cash used in investing activities	(55,298,808)	(57,498,412)	(205,068,096)
Financing activities			
Proceeds from borrowings on long-term debt	90,070,000	75,350,000	238,478,310
Repayments of borrowings on long-term debt	(46,609,122)	(22,678,127)	(109,434,577)
Deferred loan costs	(854,235)	(463,397)	(9,410,078)
Dividends paid	(1,642,709)	(1,428,045)	(426,598)
Common Stock transactions	499,189	1,163,796	719,166
Proceeds from equity offering - Class B Common Stock, net of expenses	-0-	-0-	66,065,762
Proceeds from offering of Series B Preferred Stock	-0-	-0-	10,000,000
Proceeds from settlement of interest rate swap agreement	-0-	-0-	215,000
Proceeds from sale of treasury shares	1,473,249	581,834	-0-
Purchase of Class A Common Stock	(582,567)	(3,455,475)	-0-
Purchase of Class B Common Stock	-0-	-0-	(2,740,137)
Redemption of Preferred Stock	(7,609,384)	-0-	-0-
Net cash provided by financing activities	34,744,421	49,070,586	193,466,848
Increase (decrease) in cash and cash equivalents	(480,577)	1,316,256	491,053
Cash and cash equivalents at beginning of year	2,367,300	1,051,044	559,991
Cash and cash equivalents at end of year	$ 1,886,723	$ 2,367,300	$ 1,051,044

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Preferred Stock		Class A Common Stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 1995	-0-	$ -0-	7,624,134	$ 6,795,976
Net income	-0-	-0-	-0-	-0-
Common Stock cash dividends:				
Class A ($0.05 per share)	-0-	-0-	-0-	-0-
Class B ($0.01 per share)	-0-	-0-	-0-	-0-
Purchase of Class B Common Stock *(Note E)*	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock *(Notes E, F and H):*				
401(k) Plan	-0-	-0-	19,837	262,426
Directors' Stock Plan	-0-	-0-	33,750	228,749
Non-qualified Stock Plan	-0-	-0-	55,275	358,417
Preferred Stock dividends	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock Warrants *(Notes B and E)*	-0-	-0-	-0-	2,600,000
Issuance of Series A Preferred Stock in exchange for Subordinated Note *(Notes B and E)*	1,000	10,000,000	-0-	(2,383,333)
Issuance of Series B Preferred Stock *(Notes B and E)*	1,000	10,000,000	-0-	-0-
Issuance of Class B Common Stock, net of expenses *(Notes B and E)*	-0-	-0-	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	132,000
Balance at December 31, 1996	2,000	20,000,000	7,732,996	7,994,235
Net loss	-0-	-0-	-0-	-0-
Common Stock cash dividends ($0.05) per share	-0-	-0-	-0-	-0-
Preferred Stock dividends	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock *(Notes E and F):*				
Directors' Stock Plan	-0-	-0-	752	9,645
Non-qualified Stock Plan	-0-	-0-	44,775	317,151
Stock Award Restricted Stock Plan	-0-	-0-	183,051	1,200,000
Issuance of Class B Common Stock *(Notes E and H)*				
401(k) Plan	-0-	-0-	-0-	-0-
Issuance of Series B Preferred Stock *(Note E)*	60	600,000	-0-	-0-
Issuance of Treasury Stock *(Notes E, F and H):*				
401(k) Plan	-0-	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	-0-	-0-
Purchase of Class A Common Stock *(Note E)*	-0-	-0-	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	837,000
Balance at December 31, 1997	2,060	20,600,000	7,961,574	10,358,031
Net income	-0-	-0-	-0-	-0-
Common Stock cash dividends ($0.06) per share	-0-	-0-	-0-	-0-
Preferred Stock dividends	-0-	-0-	-0-	-0-
Issuance of Treasury Stock *(Notes E, F and H):*				
401(k) Plan	-0-	-0-	-0-	-0-
Directors' Stock Plan	-0-	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	-0-	-0-
Purchase of Class A Common Stock *(Note E)*	-0-	-0-	-0-	-0-
Issuance of Series B Preferred Stock *(Note E)*	51	509,384	-0-	-0-
Purchase of Series B Preferred Stock *(Note E)*	(761)	(7,609,384)	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	325,678
Balance at December 31, 1998	1,350	$13,500,000	7,961,574	$10,683,709

See accompanying notes.

Class B Common Stock		Retained	Class A Treasury Stock		Class B Treasury Stock		
Shares	Amount	Earnings	Shares	Amount	Shares	Amount	Total
-0-	$ -0-	$ 8,827,906	(994,770)	$(6,638,284)	-0-	$ -0-	$ 8,985,598
-0-	-0-	2,519,481	-0-	-0-	-0-	-0-	2,519,481
-0-	-0-	(357,598)	-0-	-0-	-0-	-0-	(357,598)
-0-	-0-	(69,000)	-0-	-0-	-0-	-0-	(69,000)
-0-	-0-	-0-	-0-	-0-	(258,450)	(2,740,137)	(2,740,137)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	262,426
-0-	-0-	-0-	-0-	-0-	-0-	-0-	228,749
-0-	-0-	-0-	-0-	-0-	-0-	-0-	358,417
-0-	-0-	(376,849)	-0-	-0-	-0-	-0-	(376,849)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,600,000
-0-	-0-	-0-	-0-	-0-	-0-	-0-	7,616,667
-0-	-0-	-0-	-0-	-0-	-0-	-0-	10,000,000
5,250,000	66,065,762	-0-	-0-	-0-	-0-	-0-	66,065,762
-0-	-0-	-0-	-0-	-0-	-0-	-0-	132,000
5,250,000	66,065,762	10,543,940	(994,770)	(6,638,284)	(258,450)	(2,740,137)	95,225,516
-0-	-0-	(1,402,458)	-0-	-0-	-0-	-0-	(1,402,458)
-0-	-0-	(628,045)	-0-	-0-	-0-	-0-	(628,045)
-0-	-0-	(1,409,690)	-0-	-0-	-0-	-0-	(1,409,690)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	9,645
-0-	-0-	-0-	-0-	-0-	-0-	-0-	317,151
-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,200,000
23,046	282,384	-0-	-0-	-0-	-0-	-0-	282,384
-0-	-0-	-0-	-0-	-0-	-0-	-0-	600,000
-0-	49,658	-0-	-0-	-0-	8,265	87,628	137,286
-0-	-0-	(500,556)	81,238	1,082,390	-0-	-0-	581,834
-0-	-0-	-0-	(259,350)	(3,455,475)	-0-	-0-	(3,455,475)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	837,000
5,273,046	66,397,804	6,603,191	(1,172,882)	(9,011,369)	(250,185)	(2,652,509)	92,295,148
-0-	-0-	41,659,366	-0-	-0-	-0-	-0-	41,659,366
-0-	-0-	(715,209)	-0-	-0-	-0-	-0-	(715,209)
-0-	-0-	(1,317,830)	-0-	-0-	-0-	-0-	(1,317,830)
-0-	180,821	-0-	-0-	-0-	29,305	310,703	491,524
-0-	30,652	-0-	-0-	-0-	84,300	893,763	924,415
-0-	9,597	(491,917)	74,100	1,015,254	1,500	15,900	548,834
-0-	-0-	-0-	(30,750)	(582,567)	-0-	-0-	(582,567)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	509,384
-0-	-0-	-0-	-0-	-0-	-0-	-0-	(7,609,384)
-0-	173,511	-0-	-0-	-0-	-0-	-0-	499,189
5,273,046	$66,792,385	$45,737,601	(1,129,532)	$(8,578,682)	(135,080)	$(1,432,143)	$126,702,870

Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

Description of Business

The Company's operations, which are located in ten southeastern and midwestern states, include ten television stations, a transportable satellite uplink business, three daily newspapers, a weekly advertising only publication and paging operations.

Principles of Consolidation

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

Revenue Recognition

The Company recognizes revenues as services are performed.

Use of Estimates

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

Cash and Cash Equivalents

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

Inventories

Inventories, principally newsprint and supplies, are stated at the lower of cost or market. The Company uses the last-in, first-out ("LIFO") method of determining costs for substantially all of its inventories. Current cost exceeded the LIFO value of inventories by approximately $13,000 and $15,000 at December 31, 1998 and 1997, respectively.

Program Broadcast Rights

Rights to programs available for broadcast under program license agreements are initially recorded at the beginning of the license period for the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use on the straight-line method. The portion of the unamortized balance expected to be charged to operating expense in the succeeding year is classified as a current asset, with the remainder classified as a non-current asset. The liability for the license fees payable under the program license agreements is classified as current or long-term, in accordance with the payment terms of the various license agreements. The capitalized costs of the rights are recorded at the lower of unamortized costs or estimated net realizable value.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed principally by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes. Buildings, improvements and equipment are depreciated over estimated useful lives of approximately 35 years, 10 years and 5 years, respectively.

Intangible Assets

Intangible assets are stated at cost and are amortized using the straight-line method. Goodwill is amortized over 40 years. Loan acquisition fees are amortized over the life of the applicable indebtedness. Non-compete agreements are amortized over the life of the specific agreement. Accumulated amortization of intangible assets resulting from business acquisitions was $21.2 million and $11.5 million as of December 31, 1998 and 1997, respectively.

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

Income Taxes

Deferred income taxes are provided on the differences between the financial statement and income tax basis of assets and liabilities. The Company and its subsidiaries file a consolidated federal income tax return. Consolidated state income tax returns are filed when appropriate and separate state tax returns are filed when consolidation is not available. Local tax returns are filed separately.

Notes to Consolidated Financial Statements *(continued)*

A. Summary of Significant Accounting Policies *(continued)*

Capital Stock

On August 20, 1998, the Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

Stock Based Compensation

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

Concentration of Credit Risk

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

Fair Value of Financial Instruments

The estimated fair value of long-term debt at December 31, 1998 and 1997 exceeded book value by $10.4 million and $13.2 million, respectively. The fair value of the Preferred Stock at December 31, 1998 and 1997 approximates its carrying value at that date. The Company does not anticipate settlement of long-term debt or preferred stock at other than book value.

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

Reclassifications

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 1998 format.

B. Business Acquisitions and Dispositions

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.

Recent and Pending Acquisitions

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 News is a 17,000 circulation afternoon newspaper published Monday through Saturday and serves Goshen, Indiana and surrounding areas. The Company financed the acquisition through its $200.0 million bank loan agreement (the "Senior Credit Facility").

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for $10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights) but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian. Tarzian has filed a complaint in the United States District Court for the Southern District of Indiana, claiming that it had a binding contract with the Estate to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requests judgment providing that the Estate be required to sell the Tarzian Shares to Tarzian. Bull Run believes that a binding contract between Tarzian and the Estate did not exist, prior to Bull Run's purchase

Notes to Consolidated Financial Statements *(continued)*

B. Business Acquisitions and Dispositions *(continued)*

Recent and Pending Acquisitions (continued)

of the Tarzian Shares from the Estate, and in any case, Bull Run's purchase agreement with the Estate provides that in the event that a court of competent jurisdiction awards title to the Tarzian Shares to a person or entity other than Bull Run, the purchase agreement is rescinded and the Estate is required to pay Bull Run the full $10.0 million purchase price, plus interest. Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and Reno markets rank as the 87th and the 108th largest television markets in the United States, respectively, as ranked by A. C. Nielsen Company.

The Company has executed an option agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian investment from Bull Run. Upon exercise of the option, the Company will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment and related costs. The option agreement currently expires on May 31, 1999; however, the Company may extend the option period at an established fee. In connection with the option agreement, the Company granted to Bull Run warrants to purchase up to 100,000 shares of the Company's Class B Common Stock at $13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian investment. Neither Bull Run's investment nor the Company's potential investment is presently attributable under the ownership rules of the Federal Communications Commission ("FCC"). If the Company successfully exercises the option agreement, the Company plans to fund the acquisition through its Senior Credit Facility.

1998 Acquisitions and Disposition

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was $120.5 million less the accreted value of Busse's 11 5/8% Senior Secured Notes due 2000 ("Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of $112.0 million, associated transaction costs of $2.9 million and Busse's cash and cash equivalents of $5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately $69.9 million. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $122.8 million.

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at $66.0 million, and approximately $12.0 million in cash for a total value of $78.0 million. The Company recognized a pre-tax gain of approximately $70.6 million and estimated deferred income taxes of approximately $27.5 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through its Senior Credit Facility.

As a result of these transactions, the Company added the following television stations to its existing broadcast group: KOLN-TV ("KOLN"), the CBS affiliate serving the Lincoln-Hastings-Kearney, Nebraska market; its satellite station KGIN-TV ("KGIN"), the CBS affiliate serving Grand Island, Nebraska; and WEAU, an NBC affiliate serving the La Crosse-Eau Claire, Wisconsin market. These transactions also satisfied the FCC's requirement for the Company to divest itself of WALB. The transactions described above are referred to herein as the "Busse-WALB Transactions."

The Company's Board of Directors has agreed to pay Bull Run a fee of approximately $2.0 million for services performed in connection with the Busse-WALB Transactions. Of this fee, $1.1 million had been paid to Bull Run and $880,000 remained in accounts payable at December 31, 1998.

Unaudited pro forma operating data for the years ended December 31, 1998 and 1997 are presented below and assumes that the Busse-WALB Transactions and the 1997 Broadcasting Acquisitions (as defined in *1997 Acquisitions)* were completed on January 1, 1997. The above described unaudited pro forma operating

Notes to Consolidated Financial Statements *(continued)*

B. Business Acquisitions and Dispositions *(continued)*

1998 Acquisitions and Disposition *(continued)*
data excludes a pre-tax gain of approximately $70.6 million and estimated deferred income taxes of approximately $27.5 million in connection with the disposition of WALB.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Busse-WALB Transactions and the 1997 Broadcasting Acquisitions been completed on January 1, 1997, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Unaudited pro forma operating data for the years ended December 31, 1998 and 1997, are as follows (in thousands, except per common share data):

	December 31, 1998	December 31, 1997
	(Unaudited)	
Revenues, net	$ 133,661	$ 117,981
Net loss available to common stockholders	$ (4,562)	$ (6,647)
Loss per share available to common stockholders:		
Basic	$ (0.38)	$ (0.56)
Diluted	$ (0.38)	$ (0.56)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the respective acquisitions, (ii) depreciation and amortization of assets acquired, (iii) the elimination of the corporate expense allocation net of additional accounting and administrative expenses and (iv) the income tax effect of such pro forma adjustments.

1997 Acquisitions

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

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

Unaudited pro forma operating data for the year ended December 31, 1997 and 1996 are presented below and assumes that the 1997 Broadcasting Acquisitions, the First American Acquisition (as defined in *1996 Acquisitions and Disposition*) and the KTVE Sale (as defined in *1996 Acquisitions and Disposition*) occurred on January 1, 1996.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had these transactions occurred on January 1, 1996, and should not serve as a forecast of the Company's operating results for any future periods.

Notes to Consolidated Financial Statements *(continued)*

B. Business Acquisitions and Dispositions *(continued)*

***1997 Acquisitions** (continued)*

The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Unaudited pro forma operating data for the years ended December 31, 1997 and 1996, are as follows (in thousands, except per common share data):

	December 31,	
	1997	1996
	(Unaudited)	
Revenues, net	$ 109,099	$ 108,908
Net loss available to common stockholders	$ (3,769)	$ (2,397)
Loss per share available to common stockholders:		
Basic	$ (0.32)	$ (0.20)
Diluted	$ (0.32)	$ (0.20)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the 1997 Broadcasting Acquisitions and the First American Acquisition (as defined in *1996 Acquisitions and Disposition*), (ii) depreciation and amortization of assets acquired, (iii) the reduction of employee compensation related to severance and vacation compensation for 1996, (iv) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the WITN Acquisition and the First American Acquisition, (v) increased pension expense for the First American Acquisition, and (vi) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 include the 5,250,000 Class B Common shares issued in connection with the First American Acquisition.

1996 Acquisitions and Disposition

On September 30, 1996, the Company purchased from First American Media, Inc. substantially all of the assets used in the operation of two CBS-affiliated television stations, WCTV-TV ("WCTV") serving Tallahassee, Florida-Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, as well as those assets used in the operations of a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT"). The purchase price of approximately $183.9 million consisted of $175.5 million cash, $1.8 million in acquisition related costs, and the assumption of approximately $6.6 million of liabilities. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $160.2 million. The Company paid Bull Run, a fee equal to approximately $1.7 million for services performed in connection with this acquisition.

The First American Acquisition and the early retirement of the Company's existing bank credit facility and other senior indebtedness, were funded as follows: net proceeds of $66.1 million from the sale of 5,250,000 shares of the Company's Class B Common Stock; net proceeds of $155.2 million from the sale of $160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes due 2006; $16.9 million of borrowings under the Senior Credit Facility; and $10.0 million net proceeds from the sale of 1,000 shares of the Company's Series B Preferred Stock with warrants to purchase 750,000 shares of the Company's Class A Common Stock at $16 per share. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained an opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants.

Notes to Consolidated Financial Statements *(continued)*

B. Business Acquisitions and Dispositions *(continued)*

1996 Acquisitions and Disposition (continued)

In connection with the First American Acquisition, the FCC ordered the Company to divest itself of WALB in Albany, Georgia and WJHG-TV ("WJHG") in Panama City, Florida by March 31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC will complete its rulemaking on this subject. On July 31, 1998, the assets of WALB were exchanged for the assets of WEAU. This exchange transaction satisfied the FCC's divestiture requirement for WALB.

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

	WALB December 31, 1997 (Unaudited)	WJHG December 31, 1998	WJHG December 31, 1997 (Unaudited)
Current assets	$ 2,379	$ 1,163	$ 1,053
Property and equipment	1,473	1,323	848
Other assets	471	148	346
Total assets	$ 4,323	$ 2,634	$ 2,247
Current liabilities	$ 994	$ 583	$ 350
Other liabilities	215	118	127
Stockholder's equity	3,114	1,933	1,770
Total liabilities and stockholder's equity	$ 4,323	$ 2,634	$ 2,247

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

	WALB			WJHG		
	Seven Months Ended July 31, 1998	Year ended December 31, 1997	Year ended December 31, 1996	Year ended December 31, 1998	Year ended December 31, 1997	Year ended December 31, 1996
	(Unaudited)					
Broadcasting revenues	$ 6,773	$10,090	$10,611	$ 5,057	$ 4,896	$ 5,217
Expenses	3,130	4,770	5,070	4,038	3,757	4,131
Operating income	3,643	5,320	5,541	1,019	1,139	1,086
Other income (expense)	(33)	3	7	1	(5)	6
Income before income taxes	$ 3,610	$ 5,323	$ 5,548	$ 1,020	$ 1,134	$ 1,092
Net income	$ 2,238	$ 3,295	$ 3,465	$ 632	$ 737	$ 685

Notes to Consolidated Financial Statements *(continued)*

B. Business Acquisitions and Dispositions *(continued)*

1996 Acquisitions and Disposition *(continued)*

On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV, a CBS television affiliate serving the Augusta, Georgia television market (the "Augusta Acquisition"). The purchase price of approximately $37.2 million which included assumed liabilities of approximately $1.3 million, was financed primarily through long-term borrowings. The assets acquired consisted of office equipment and broadcasting operations located in North Augusta, South Carolina. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $32.5 million. In connection with the Augusta Acquisition, the Company paid a fee of $360,000 to Bull Run for services performed.

Funds for the Augusta Acquisition were obtained from the modification of the Company's existing bank debt on January 4, 1996 (the "Bank Loan") to a variable rate reducing revolving credit facility (the "Old Credit Facility") and the sale to Bull Run of an 8% subordinated note due January 3, 2005 in the principal amount of $10.0 million (the "8% Note"). In connection with the sale of the 8% Note, the Company also issued warrants to Bull Run to purchase 731,250 shares of Class A Common Stock at $11.92 per share. Of these warrants, 450,000 vested upon issuance with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. The Old Credit Facility provided for a credit line up to $54.2 million. This transaction also required a modification of the interest rate of the Company's $25.0 million senior secured note with an institutional investor (the "Senior Note") from 10.08% to 10.7%.

As part of the financing arrangements for the First American Acquisition, the Old Credit Facility and the Senior Note were retired and the Company issued to Bull Run, in exchange for the 8% Note, 1,000 shares of Series A Preferred Stock. The warrants issued with the 8% Note were retired and the warrants issued with the Series A Preferred Stock will vest in accordance with the same schedule described above provided the Series A Preferred Stock remains outstanding. The Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.39 per basic common share and $0.37 per diluted common share for 1996) in connection with the early retirement of the $25.0 million Senior Note and the write-off of loan acquisition costs from the early extinguishment of debt.

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

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

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

	December 31,	
	1996	1995
	(Unaudited)	
Revenues, net	$ 97,540	$ 90,637
Net loss available to common stockholders	$ (1,388)	$ (6,073)
Loss per share available to common stockholders:		
Basic	$ (0.11)	$ (0.51)
Diluted	$ (0.11)	$ (0.51)

Notes to Consolidated Financial Statements *(continued)*

B. Business Acquisitions and Dispositions *(continued)*

1996 Acquisitions and Disposition *(continued)*

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the First American Acquisition and the WRDW Acquisition, (ii) depreciation and amortization of assets acquired, (iii) the reduction of employee compensation related to severance and vacation compensation for 1996, (iv) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the First American Acquisition, (v) increased pension expense for the First American Acquisition, and (vi) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 and 1995 include the 5,250,000 Class B Common shares issued in connection with the First American Acquisition.

C. Long-term Debt

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

	December 31,	
	1998	1997
10 5/8% Senior Subordinated Notes due 2006	$ 160,000	$ 160,000
Senior Credit Facility	109,500	65,630
Other	1,155	1,446
	270,655	227,076
Less current portion	(430)	(400)
	$ 270,225	$ 226,676

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

The Senior Credit Facility included scheduled reductions in the $125.0 million credit limit which commenced on March 31, 1997, interest rates based upon a spread over LIBOR and/or the lender's prime rate, an unused commitment fee of 0.50% applied to available funds and a maturity date of June 30, 2003. Effective September 17, 1997, the Senior Credit Facility was modified to reinstate the original credit limit of $125.0 million which had been reduced by the scheduled reductions. The modification also reduced the interest rate spread over LIBOR and/or Prime. The modification also extended the maturity date from June 30, 2003 to June 30, 2004. The modification required a one-time fee of $250,000.

Effective July 31, 1998, the Senior Credit Facility was modified to increase the committed credit limit from $125.0 million to $200.0 million. This modification also allows for an additional uncommitted $100.0 million in available credit which is in addition to the committed $200.0 million credit limit. This $100.0 million in uncommitted available credit can be borrowed by the Company only after approval of the bank consortium. The modification also extended the maturity date from June 30, 2004 to June 30, 2005. The modification required a one-time fee of approximately $750,000.

At December 31, 1998, the Company had approximately $109.5 million borrowed under the Senior Credit Facility with approximately $90.5 million available under the agreement. The interest rate on the outstanding balance was based on the lender's prime rate

Notes to Consolidated Financial Statements *(continued)*

C. Long-term Debt *(continued)*

and a spread over LIBOR of 1.75%. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined by the Senior Credit Facility, not to exceed the lender's prime rate plus 0.50% or LIBOR plus 2.25%. The effective interest rate on the Senior Credit Facility at December 31, 1998 and 1997 was 7.1% and 7.9%, respectively. The Company is charged a commitment fee on the excess of the aggregate average daily available credit limit less the amount outstanding. At December 31, 1998, the commitment fee was 0.50% per annum.

The Company's $200.0 million Senior Credit Facility, as amended, is comprised of a term loan (the "Term Commitment") of $100.0 million and a revolving credit facility (the "Revolving Commitment") of $100.0 million.

As of December 31, 1998, the Company had $9.5 million borrowed under the Senior Credit Facility's Revolving Commitment. The Revolving Commitment will automatically reduce as follows: 10% in 2000, 15% in 2001, 15% in 2002, 20% in 2003, 25% in 2004 and 15% in 2005.

As of December 31, 1998, the Company had $100.0 million borrowed under the Senior Credit Facility's Term Commitment. The amount outstanding under the Term Commitment will become fixed as of December 30, 1999 and it will be reduced as follows: 2.5% in 1999, 10.0% in 2000, 10.0% in 2001, 17.5% in 2002, 17.5% in 2003, 21.2% in 2004 and 21.3% in 2005.

The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit additional indebtedness and require minimum levels of cash flows. The Senior Subordinated Notes also contained similar restrictive provisions as well as limitations on restricted payments.

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

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

Aggregate minimum principal maturities on long-term debt as of December 31, 1998, were as follows (in thousands):

Year	Minimum Principal Maturities
1999	$ 430
2000	330
2001	209
2002	62
2003	27,067
Thereafter	242,557
	$ 270,655

Notes to Consolidated Financial Statements *(continued)*

C. Long-term Debt *(continued)*

The Company made interest payments of approximately $22.9 million, $21.3 million, and $7.6 million during 1998, 1997 and 1996, respectively.

In the year ended December 31, 1996, the Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.39 per basic common share or $0.37 per diluted common share) in connection with the early retirement of the Senior Note and the write-off of unamortized loan acquisition costs of the Senior Note and the Old Credit Facility resulting from the early extinguishment of debt.

D. Supplemental Employee Benefits and Other Agreements

The Company had an employment agreement with its former President, Ralph W. Gabbard, which provided for an award of 183,051 shares of the Company's Class A Common Stock if his employment with the Company continued until September 1999. Mr. Gabbard died unexpectedly in September 1996. The Company awarded these shares to the estate of Mr. Gabbard. Approximately $880,000 of expense was recorded in 1996.

The Company has entered into supplemental retirement benefit and other agreements with certain key employees. These benefits are to be paid primarily in equal monthly amounts over the employees' life for a period not to exceed 15 years after retirement. The Company charges against operations amounts sufficient to fund the present value of the estimated lifetime supplemental benefit over each employee's anticipated remaining period of employment.

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

	Year Ended December 31,		
	1998	**1997**	**1996**
Beginning liability	$ 1,526	$ 3,158	$ 2,938
Provision	180	161	918
Forfeitures	(61)	-0-	-0-
Net expense	119	161	918
Payments	(202)	(1,793)	(698)
Net change	(83)	(1,632)	220
Ending liability	1,443	1,526	3,158
Less current portion	(315)	(365)	(1,801)
	$ 1,128	$ 1,161	$ 1,357

Notes to Consolidated Financial Statements *(continued)*

E. Stockholders' Equity

During 1996, the Company amended its Articles of Incorporation to increase to 50,000,000 the number of shares of all classes of stock which the Company has the authority to issue, of which, 15,000,000 shares are designated Class A Common Stock, 15,000,000 shares are designated Class B Common Stock, and 20,000,000 shares are designated "blank check" preferred stock for which the Board of Directors has the authority to determine the rights, powers, limitations and restrictions. The rights of the Company's Class A and Class B Common Stock are identical, except that the Class A Common Stock has 10 votes per share and the Class B Common Stock has one vote per share. The Class A and Class B Common Stock receive cash dividends on an equal per share basis.

As part of the financing for the Augusta Acquisition in 1996, funding was obtained from the 8% Note, which included the issuance of detachable warrants to Bull Run to purchase 731,250 shares of Class A Common Stock at $11.92 per share. Of these warrants 450,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. This allocation of the proceeds was based on an estimate of the relative fair values of the 8% Note and the warrants on the date of issuance. The Company amortized the original issue discount on a ratable basis in accordance with the original terms of the 8% Note through September 30, 1996. The Company recognized approximately $217,000 in amortization costs for the $2.6 million original issue discount. In September 1996, the Company exchanged the 8% Note with Bull Run for 1,000 shares of liquidation preference Series A Preferred Stock yielding 8%. The warrants issued with the 8% Note were retired and the warrants issued with the Series A Preferred Stock will vest in accordance with the same schedule described above provided the Series A Preferred Stock remains outstanding. The holder of the Series A Preferred Stock will receive cash dividends at an annual rate of $800 per share. The liquidation or redemption price of the Series A Preferred Stock is $10,000 per share.

As part of the financing for the First American Acquisition in 1996, the Company also issued 1,000 shares of Series B Preferred Stock, with warrants to purchase an aggregate of 750,000 shares of Class A Common Stock at an exercise price of $16.00 per share. Of these warrants 450,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained a written opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants. The holders of the Series B Preferred Stock will receive dividends at an annual rate of $600 per share, except the Company at its option may pay these dividends in cash or in additional shares. The liquidation or redemption price of the Series B Preferred Stock is $10,000 per share. In August 1998 and September 1997, the Company issued 50.9 shares and 60.0 shares of Series B Preferred Stock, respectively, as payment of dividends to the holders of its then outstanding Series B Preferred Stock. During 1998, the Company redeemed 760.9 shares of Series B Preferred Stock at a cost of $7.6 million.

On September 24, 1996, the Company completed a public offering of 5.25 million shares of its Class B Common Stock at an offering price of $13.67 per share. The proceeds, net of expenses, from this public offering of approximately $66.1 million were used in the financing of the First American Acquisition.

The Company is authorized by its Board of Directors to purchase up to two million shares of the Company's Class A or Class B Common Stock to either be retired or reissued in connection with the Company's benefit plans, including the Capital Accumulation Plan and the Incentive Plan. During 1998, 1997 and 1996, the Company purchased 30,750 Class A Common Stock Shares, 259,350 Class A Common Stock shares and 258,450 Class B Common Stock shares, respectively, under this authorization. The 1998, 1997 and 1996 treasury shares were purchased at prevailing market prices with an average effective price of $18.95, $13.33 and $10.60 per share, respectively, and were funded from the Company's operating cash flow.

Notes to Consolidated Financial Statements *(continued)*

F. Long-term Incentive Plan and Stock Purchase Plan

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123 "Accounting for Stock-Based Compensation" ("Statement 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

The Company has a long-term incentive plan (the "Incentive Plan") under which 300,000 shares of the Company's Class A Common Stock and 600,000 shares of the Company's Class B Common Stock are reserved for grants to key personnel for (i) incentive stock options, (ii) non-qualified stock options, (iii) stock appreciation rights, (iv) restricted stock and (v) performance awards, as defined by the Incentive Plan. Shares of Common Stock underlying outstanding options or performance awards are counted against the Incentive Plan's maximum shares while such options or awards are outstanding. Under the Incentive Plan, the options granted typically vest after a two year period and expire three years after full vesting. Options granted through December 31, 1998, have been granted at a price which approximates fair market value on the date of the grant. On December 11, 1998, the Company repriced certain Class B Common Stock grants made under the Incentive Plan, at a price which approximated the market price of the Class B Common Stock on that day.

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

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

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of Statement 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996, respectively: risk-free interest rates of 4.57%, 5.82% and 5.43%; dividend yields of 0.55%, 0.32% and 0.50%; volatility factors of the expected market price of the Company's Class A Common Stock of 0.28, 0.28 and 0.33; and a weighted-average expected life of the options of 4.0, 4.5 and 2.0 years.

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

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

	Year Ended December 31,		
	1998	1997	1996
Pro forma income (loss) before extraordinary charge available to common stockholders	$ 39,523	$ (3,174)	$ 5,190
Pro forma income (loss) before extraordinary charge per common share:			
Basic	$ 3.31	$ (0.27)	$ 0.64
Diluted	$ 3.20	$ (0.27)	$ 0.62

Notes to Consolidated Financial Statements *(continued)*

F. Long-term Incentive Plan and Stock Purchase Plan *(continued)*

A summary of the Company's stock option activity for Class A Common Stock, and related information for the years ended December 31, 1998, 1997 and 1996 is as follows (in thousands, except weighted average data):

	Year Ended December 31,					
	1998		1997		1996	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Stock options outstanding-beginning of year	92	$ 7.43	297	$ 8.74	394	$ 8.26
Options granted	19	17.81	-0-		-0-	
Options exercised	(74)	7.08	(127)	7.17	(78)	6.62
Options forfeited	(1)	8.89	-0-		(9)	8.29
Options expired	-0-		(78)	12.83	(10)	6.78
Stock options outstanding-end of year	36	$13.71	92	$ 7.43	297	$ 8.74
Exercisable at end of year	16	$ 8.89	92	$ 7.43	246	$ 8.71
Weighted-average fair value of options granted during the year		$ 5.59				

Exercise prices for Class A Common Stock options outstanding as of December 31, 1998, ranged from $8.89 to $17.81 for the Incentive Plan. The weighted-average remaining contractual life of the Class A Common Stock options outstanding for the Incentive Plan is 3.2 years.

A summary of the Company's stock option activity for Class B Common Stock, and related information for the years ended December 31, 1998, 1997 and 1996 is as follows (in thousands, except weighted average data):

	Year Ended December 31,					
	1998		1997		1996	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Stock options outstanding-beginning of year	630	$15.80	102	$10.58	-0-	
Options granted	589	14.43	528	16.80	102	$10.58
Options exercised	(86)	11.05	-0-		-0-	
Options forfeited	(474)	16.95	-0-		-0-	
Stock options outstanding-end of year	659	$14.36	630	$15.80	102	$10.58
Exercisable at end of year	84	$14.65	79	$10.58	-0-	
Weighted-average fair value of options granted during the year		$ 3.95		$ 5.40		$ 2.15

Exercise prices for Class B Common Stock options outstanding as of December 31, 1998, ranged from $10.58 to $14.50 for the Incentive Plan and $14.00 to $16.13 for the Stock Purchase Plan. The weighted-average remaining contractual life of the Class B Common Stock options outstanding for the Incentive Plan and Stock Purchase Plan is 4.0 and 0.5 years, respectively.

Notes to Consolidated Financial Statements *(continued)*

G. Income Taxes

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

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

	Year Ended December 31,		
	1998	1997	1996
Current			
Federal	$ 414	$(1,620)	$1,462
State and local	937	577	841
Deferred	26,793	1,283	(44)
	$28,144	$ 240	$2,259

The total provision for income taxes for 1998 included a deferred tax charge of $27.5 million which related to the exchange of WALB's assets for the assets of WEAU. For income tax purposes, the gain on the exchange of WALB qualified for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986. The total provision for income taxes for 1996 included a tax benefit of $2.2 million which related to an extraordinary charge on extinguishment of debt.

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

	December 31,	
	1998	1997
Deferred tax liabilities:		
Net book value of property and equipment	$ 6,597	$ 2,670
Goodwill and other intangibles	45,546	6,281
Other	122	120
Total deferred tax liabilities	52,265	9,071
Deferred tax assets:		
Liability under supplemental retirement plan	528	526
Allowance for doubtful accounts	465	499
Difference in basis of assets held for sale	1,106	941
Federal operating loss carryforwards	3,825	4,412
State and local operating loss carryforwards	2,534	1,952
Other	457	290
Total deferred tax assets	8,915	8,620
Valuation allowance for deferred tax assets	(798)	(753)
Net deferred tax assets	8,117	7,867
Deferred tax liabilities, net	$44,148	$ 1,204

Approximately $11.3 million in federal operating loss carryforwards will expire by the year ended December 31, 2012. Additionally, the Company has approximately $56.0 million in state operating loss carryforwards.

Notes to Consolidated Financial Statements *(continued)*

G. Income Taxes *(continued)*

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

	Year Ended December 31,		
	1998	1997	1996
Statutory rate applied to income (loss)	$24,431	$ (395)	$ 1,625
State and local taxes, net of federal tax benefits	3,472	572	(7)
Permanent difference relating to sale of KTVE	-0-	-0-	602
Other items, net	241	63	39
	$28,144	$ 240	$ 2,259

The Company made income tax payments of approximately $1.5 million, $275,000 and $3.6 million during 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, the Company had current recoverable income taxes of approximately $1.7 million and $2.1 million, respectively.

H. Retirement Plans

Pension Plan

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

	December 31,	
	1998	1997
Change in benefit obligation		
Benefit obligation at beginning of year	$7,053	$6,483
Service cost	616	429
Interest cost	496	443
Actuarial losses	203	31
Change in benefit obligation due to change in discount rate	303	-0-
Benefits paid	(349)	(333)
Benefit obligation at end of year	$8,322	$7,053
Change in plan assets		
Fair value of plan assets at beginning of year	$6,926	$6,241
Actual return on plan assets	618	644
Company contributions	212	374
Benefits paid	(349)	(333)
Fair value of plan assets at end of year	$7,407	$6,926
Components of accrued benefit costs		
Underfunded status of the plan	$ (915)	$ (134)
Unrecognized net actuarial (gain) loss	297	(58)
Unrecognized net transition amount	(188)	(242)
Unrecognized prior service cost	(3)	(4)
Accrued benefit cost	$ (809)	$ (438)
Weighted-average assumptions as of December 31		
Discount rate	6.8%	7.0%
Expected long-term rate of return on plan assets	6.8%	7.0%
Estimated rate of increase in compensation levels	5.0%	5.0%

Notes to Consolidated Financial Statements *(continued)*

H. Retirement Plans *(continued)*

The net periodic pension cost includes the following components (in thousands):

	Year Ended December 31,		
	1998	1997	1996
Components of net periodic pension cost			
Service cost	$ 616	$ 429	$ 360
Interest cost	496	443	409
Expected return on plan assets	(475)	(433)	(393)
Amortization of prior service cost	(1)	(1)	(1)
Amortization of transition (asset) or obligation	(54)	(54)	(54)
Pension cost	$ 582	$ 384	$ 321

Capital Accumulation Plan

Effective October 1, 1994, the Company adopted the Gray Communications Systems, Inc. Capital Accumulation Plan (the "Capital Accumulation Plan") for the purpose of providing additional retirement benefits for substantially all employees. The Capital Accumulation Plan is intended to meet the requirements of section 401(k) of the Internal Revenue Code of 1986.

On November 14, 1996, the Company amended its Capital Accumulation Plan to allow an investment option in the Company's Class B Common Stock. The amendment also allowed for the Company's percentage match to be made by a contribution of the Company's Class B Common Stock, effective in 1997. On December 13, 1996, the Company reserved 300,000 shares of the Company's Class B Common Stock for issuance under the Capital Accumulation Plan.

Employee contributions to the Capital Accumulation Plan, not to exceed 6% of the employees' gross pay, are matched by Company contributions. Until 1997, the Company's percentage match was made by a contribution of the Company's Class A Common Stock. Since 1997, the Company's percentage match has been made by a contribution of the Company's Class B Common Stock. The Company's percentage match amount is declared by the Company's Board of Directors before the beginning of each plan year. The Company's percentage match was 50% for the three years ended December 31, 1998. The Company contributions vest, based upon each employee's number of years of service, over a period not to exceed five years.

Company matching contributions aggregating $491,524, $419,670 and $262,426 were charged to expense for 1998, 1997 and 1996, respectively, for the issuance of 29,305 and 31,311 Class B shares and 19,837 Class A shares, respectively.

I. Commitments and Contingencies

The Company has various operating lease commitments for equipment, land and office space. The Company has also entered into commitments for various television film exhibition rights for which the license periods have not yet commenced. Rent expense resulting from operating leases for the years ended December 31, 1998, 1997 and 1996 were $1.8 million, $1.4 million and $501,000, respectively. Future minimum payments under operating leases with initial or remaining noncancelable lease terms in excess of one year and obligations under film exhibition rights for which the license period have not yet commenced are as follows (in thousands):

Notes to Consolidated Financial Statements *(continued)*

I. Commitments and Contingencies *(continued)*

	Lease	Film	Total
1999	$ 1,411	$ 1,550	$ 2,961
2000	877	3,656	4,533
2001	661	2,428	3,089
2002	344	1,535	1,879
2003	137	302	439
Thereafter	714	421	1,135
	$ 4,144	$ 9,892	$14,036

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

J. Information on Business Segments

The Company operates in three business segments: broadcasting, publishing and paging. The broadcasting segment operates ten television stations located in the southeastern and midwestern United States at December 31, 1998. The publishing segment operates three daily newspapers in three different markets, and an area weekly advertising only publication in Georgia. The paging operations are located in Florida, Georgia and Alabama. The following tables present certain financial information concerning the Company's three operating segments (in thousands):

	Year Ended December 31,		
	1998	1997	1996
		(In thousands)	
Operating revenues:			
Broadcasting	$ 91,007	$ 72,300	$ 54,981
Publishing	29,330	24,536	22,845
Paging	8,553	6,712	1,479
	$128,890	$ 103,548	$ 79,305
Operating income:			
Broadcasting (1)	$ 21,113	$ 17,509	$ 14,106
Publishing	2,867	2,206	1,980
Paging	947	1,015	(7)
Total operating income (1)	24,927	20,730	16,079
Gain on disposition of television stations	70,572	-0-	5,671
Miscellaneous income and (expense), net	(242)	(31)	33
Interest expense	(25,454)	(21,861)	(11,689)
Income (loss) before income taxes	$ 69,803	$ (1,162)	$ 10,094

Notes to Consolidated Financial Statements *(continued)*

J. Information on Business Segments *(continued)*

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

	Year Ended December 31,		
	1998	1997	1996
		(In thousands)	
Depreciation and amortization expense:			
Broadcasting	$14,713	$11,024	$ 5,554
Publishing	1,554	1,973	1,730
Paging	1,773	1,480	329
	18,040	14,477	7,613
Corporate	77	42	50
Total depreciation and amortization expense	$18,117	$14,519	$ 7,663
Media cash flow:			
Broadcasting	$38,446	$30,519	$22,594
Publishing	5,214	4,856	4,957
Paging	2,964	2,686	401
	$46,624	$38,061	$27,952
Media cash flow reconciliation:			
Operating income (1)	$24,927	$20,730	$16,079
Add:			
Amortization of program license rights	4,251	3,501	2,743
Depreciation and amortization	18,117	14,519	7,663
Corporate overhead	3,063	2,528	3,219
Non-cash compensation and contribution to 401(k) Plan, paid in Common Stock	476	412	1,125
Less:			
Payments for program license liabilities	(4,210)	(3,629)	(2,877)
	$46,624	$38,061	$27,952
Capital expenditures:			
Broadcasting	$ 6,718	$ 5,000	$ 2,674
Publishing	934	4,235	692
Paging	1,461	975	-0-
	9,113	10,210	3,366
Corporate	158	162	30
Total capital expenditures	$ 9,271	$10,372	$ 3,396

Notes to Consolidated Financial Statements *(continued)*

J. Information on Business Segments *(continued)*

	December 31, 1998	1997	1996
		(In thousands)	
Identifiable assets:			
Broadcasting	$410,039	$287,254	$245,614
Publishing	17,196	19,818	16,301
Paging	25,563	23,950	23,764
	452,798	331,022	285,679
Corporate	16,176	14,029	12,985
Total identifiable assets	$468,974	$345,051	$298,664

(1) Operating income excludes gain on disposition of television stations of $70.6 million recognized for the exchange of WALB in 1998 and $5.7 million recognized for the KTVE Sale in 1996.

K. Selected Quarterly Financial Data (Unaudited)

	Fiscal Quarters First	Second	Third	Fourth
	(In thousands, except for per share data)			
Year Ended December 31, 1998:				
Operating revenues	$ 27,982	$ 32,061	$ 31,845	$ 37,002
Operating income (1)	4,868	7,210	5,020	7,829
Net income (loss)	(1,483)	837	41,830	475
Net income (loss) available to common stockholders	(1,842)	478	41,484	221
Basic income (loss) per share	(0.16)	0.04	3.48	0.02
Diluted income (loss) per share	$ (0.16)	$ 0.04	$ 3.31	$ 0.02
Year Ended December 31, 1997:				
Operating revenues	$ 22,761	$ 25,499	$ 25,984	$ 29,304
Operating income	4,337	6,124	4,271	5,998
Net income (loss)	(461)	622	(1,162)	(401)
Net income (loss) available to common stockholders	(811)	272	(1,513)	(760)
Basic income (loss) per share	(0.07)	0.02	(0.13)	(0.06)
Diluted income (loss) per share	$ (0.07)	$ 0.02	$ (0.13)	$ (0.06)

(1) Operating income excludes $70.6 million gain on exchange of television station recognized from the disposition of WALB.

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

The third quarter of 1998 includes the Busse-WALB Transactions. As a result of the exchange of WALB for WEAU, the Company recognized a pre-tax gain of approximately $70.6 million and estimated deferred income taxes of approximately $27.5 million *(See Note B).*

On August 20, 1998, the Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

Board of Directors

Dr. William E. Mayher, III, 60 – Chairman of the Company's Board of Directors since 1993 and a director since 1990; neurosurgeon in Albany, Georgia, from 1970-1998; a director of the following: Medical College of Georgia Foundation, American Association of Neurological Surgeons, Gaston Loughlin, Inc. and Palmyra Medical Centers; a member of the Executive Committee and Management Personnel Committee of the Company's Board of Directors.

J. Mack Robinson, 75 – President and Chief Executive Officer of the Company since 1996 and a director since 1993; Chairman of the Board of Bull Run Corporation since 1994; Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1958; President of Atlantic American Corporation, an insurance holding company, from 1988 until 1995 and Chairman of the Board since 1974; a director of the following companies: Bankers Fidelity Life Insurance Company, American Independent Life Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company and American Safety Insurance Company; director *emeritus* of Wachovia Corporation; a member of the Executive Committee and Management Personnel Committee of the Company's Board of Directors.

Robert S. Prather, Jr., 54 – Executive Vice President of the Company since 1996 and a director since 1993; a director, President and Chief Executive Officer of Bull Run Corporation since 1992; a director of the following companies: Host Communications, Inc., Capital Sports Properties, Inc., Universal Sports America, Inc., Rawlings Sporting Goods Company, Inc. and The Morgan Group, Inc.; a member of the Executive Committee and Management Personnel Committee of the Company's Board of Directors.

Richard L. Boger, 52 – a director of the Company since 1991; President and Chief Executive Officer of Export Insurance Services, Inc., an insurance organization; a director of CornerCap Group of Funds, a "Series" investment company since prior to 1992; a member of the Executive Committee and Chairman of the Management Personnel Committee of the Company's Board of Directors.

Howell W. Newton, 52 – a director of the Company since 1991; President and Treasurer of Trio Manufacturing Co., a textile manufacturing company, since 1978; Chairman of the Audit Committee of the Company's Board of Directors.

Hugh Norton, 66 – a director of the Company since 1987; President of Norco, Inc., an insurance agency, since 1973; one of the founders and directors of the Community Bank of Georgia; a real estate developer in Destin, Florida; a member of the Management Personnel Committee of the Company's Board of Directors.

Harriett J. Robinson, 68 – a director of the Company since 1997; a director of Atlantic American Corporation since 1989; a director of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1967.

Hilton H. Howell, Jr., 37 – a director of the Company since 1993; President and Chief Executive Officer of Atlantic American Corporation, an insurance holding company, since 1995 and Executive Vice President from 1992 to 1995; Executive Vice President and General Counsel of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1991; Vice Chairman and Executive Vice President of Bankers Fidelity Life Insurance Company and Georgia Casualty & Surety Company since 1992; a director, Vice President and Secretary of Bull Run Corporation since 1994; a director of the following companies: Atlantic American Corporation, Bankers Fidelity Life Insurance Company, American Independent Life Insurance Company, Delta Life Insurance Company, Delta Fire and Casualty Insurance Company, American Southern Insurance Company, American Safety Insurance Company and Georgia Casualty & Surety Company; a member of the Audit Committee of the Company's Board of Directors.

Zell Miller, 66 – a director of the Company since January 1999; Governor of the state of Georgia from January 1991 until January 1999; a director of the following companies: Post Properties, Inc., Georgia Power Company, United Community Banks, Inc., and Law Companies Group; a professor at Young Harris College and Emory University.

Stockholder Information

CORPORATE ADDRESS
Gray Communications Systems, Inc.
Executive Offices:
4370 Peachtree Road, NE
Atlanta, Georgia 30319
(404) 504-9828

Administrative Offices:
126 N. Washington Street
Albany, Georgia 31701
(912) 888-9390

TRANSFER AGENT AND REGISTRAR
ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Centre
Ridgefield Park, New Jersey 07660
(800) 756-3353

INDEPENDENT AUDITORS
Ernst & Young LLP
600 Peachtree Street, NE
Suite 2800
Atlanta, Georgia 30308-2215
(404) 874-8300

FORM 10-K
The Company's 1998 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission may be obtained without charge upon written request to:
Investor Relations
Gray Communications Systems, Inc.
P.O. Box 48
Albany, Georgia 31702-0048
(912) 888-9378

STOCK EXCHANGE DATA
The Company's Class A and Class B Common Stock are listed on the New York Stock Exchange under the symbols "GCS" and "GCS.B," respectively

TRUSTEE
for 10 5/8% Senior Subordinated
Notes Due 2006 -
Bankers Trust Company
Four Albany Street
New York, New York 10006

Report of Independent Auditors

Board of Directors and Stockholders
Gray Communications Systems, Inc.

We have audited the accompanying consolidated balance sheets of Gray Communications Systems, Inc., as of December 31, 1998 and 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gray Communications Systems, Inc., at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Atlanta, Georgia
January 26, 1999

Ernst + Young LLP

Operations

PUBLISHING

THE ALBANY HERALD
126 N. Washington Street
Albany, Georgia 31701
(912) 888-9300

THE SOUTHWEST GEORGIA SHOPPER
126 N. Washington Street
Albany, Georgia 31701
(912) 888-9300

THE ROCKDALE CITIZEN
969 S. Main Street
Conyers, Georgia 30012
(770) 483-7108

GWINNETT DAILY POST
166 Buford Drive
Lawrenceville, Georgia 30045
(770) 963-9205

GWINNETT NEWS AND ENTERTAINMENT TELEVISION
166 Buford Drive
Lawrenceville, Georgia 30045
(770) 963-9205

THE GOSHEN NEWS
114 South Main Street
Goshen, Indiana 46526
(219) 533-2151
www.goshennews.com

BROADCASTING

WJHG-TV
8195 Front Beach Road
Panama City, Florida 32407-4820
(850) 234-2125
www.msnbc.com/local/wjhg

WITN-TV
Highway 17 South
Washington, North Carolina 27889
(252) 946-3131
www.witntv.com

WKYT-TV
2851 Winchester Road
Lexington, Kentucky 40509
(606) 299-0411
www.wkyt.com

WRDW-TV
1301 Georgia Avenue
North Augusta, South Carolina 29841
(803) 278-1212
www.wrdw.com

WYMT-TV
199 Black Gold Boulevard
Hazard, Kentucky 41701
(606) 436-5757

WEAU-TV
1907 South Hastings Way
Eau Claire, Wisconsin 54701
(715) 835-1313
www.weau.com

WVLT-TV
6516 Papermill Drive
Knoxville, Tennessee 37919
(423) 450-8888
www.volunteertv.com

WCTV-TV
County Road 12
Tallahassee, Florida 32312
(850) 893-6666
www.wctv6.com

KOLN/KGIN-TV
840 North 40th Street
Lincoln, Nebraska 68503
(402) 467-4321
www.kolnkgin.com

LYNQX COMMUNICATIONS
County Road 12
Tallahassee, Florida 32312
(850) 893-2623
www.lynqx.com

PAGING

PORTA-PHONE PAGING
1306 Thomasville Road
Tallahassee, Florida 32303
(850) 841-7100

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