

GRAY TELEVISION INC

Form DEF 14A

August 15, 2002

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**SCHEDULE 14A  
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- |                                                                        |                                                                                                            |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> o Preliminary Proxy Statement                 | <input type="checkbox"/> o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> x Definitive Proxy Statement       |                                                                                                            |
| <input type="checkbox"/> o Definitive Additional Materials             |                                                                                                            |
| <input type="checkbox"/> o Soliciting Material Pursuant to Rule 14a-12 |                                                                                                            |

GRAY TELEVISION, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- o No fee required.
- x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
Class B Common Stock, no par value per share

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(2) Aggregate number of securities to which transaction applies:  
Not Applicable

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
The underlying transaction value on which the filing is calculated is comprised of: (i) the estimated cash payment of \$502,500,000 to acquire all of the outstanding capital stock and to repay certain outstanding debt of Stations Holding Company, Inc.; and (ii) the estimated cash payment of up to \$9,300,000 for certain working capital of Stations Holding Company, Inc.

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(4) Proposed maximum aggregate value of transaction:  
\$511,800,000

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(5) Total fee paid:  
\$47,086

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:  
\$47,086\*

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(2) Form, Schedule or Registration Statement No.:  
Form S-3 (333-88694)

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(3) Filing Party:  
Gray Television, Inc.

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(4) Date Filed:  
May 20, 2002, amended on July 15, 2002

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\* In connection with the filing of the Form S-3 Registration Statement, we paid a filing fee of \$59,188. We are applying \$47,086 of that filing fee to offset the filing fee for this definitive proxy statement.

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**GRAY TELEVISION, INC.**

**4370 Peachtree Road, N.E.  
Atlanta, Georgia 30319**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**September 16, 2002**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Gray Television, Inc. will be held at 9:30 a.m., local time, on Monday, September 16, 2002, at The Peachtree Insurance Center, The Executive Board Room, 5th Floor, 4370 Peachtree Road, N.E., Atlanta, Georgia 30319, for the purpose of considering and acting upon:

A proposal to amend Gray's articles of incorporation to increase the number of authorized shares of Gray class B common stock, no par value per share, from 15,000,000 authorized shares to 50,000,000 authorized shares;

A proposal to amend Gray's articles of incorporation to rename the Gray class B common stock as Gray Common Stock ;

The election of nine members of Gray's board of directors;

A proposal to approve the Gray Television, Inc. 2002 Long Term Incentive Plan;

A proposal to ratify the issuance of shares of Gray Series C convertible preferred stock, including the issuance of such preferred stock to certain related parties of Gray; and

Such other business and matters or proposals as may properly come before the annual meeting.

Only holders of record of Gray class A common stock and class B common stock at the close of business on August 13, 2002 are entitled to notice of, and to vote at, the annual meeting.

**Your vote is very important. We encourage you to vote as soon as possible by one of three convenient methods: by calling the toll-free number listed on the form of proxy, by accessing the Internet site listed on the form of proxy or by signing, dating and returning the form of proxy in the enclosed postage-paid envelope.**

By Order of the Board of Directors,  
J. Mack Robinson  
*President and Chief Executive Officer*

Atlanta, Georgia  
August 13, 2002

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**GRAY TELEVISION, INC.**

**4370 Peachtree Road, N.E.  
Atlanta, Georgia 30319**

**PROXY STATEMENT**

**For Annual Meeting of Shareholders  
to be Held on September 16, 2002**

This proxy statement is being furnished by the board of directors of Gray Television, Inc., a Georgia corporation, to the holders of Gray class A common stock and class B common stock in connection with the solicitation of proxies by Gray's board of directors for use at the 2002 Annual Meeting of Shareholders to be held at The Peachtree Insurance Center, The Executive Board Room, 5th Floor, 4370 Peachtree Road, N.E., Atlanta, Georgia 30319, at 9:30 a.m., local time, on Monday, September 16, 2002, and at any adjournments or postponements thereof.

A proxy delivered pursuant to this solicitation is revocable at the option of the person giving the same at any time before it is exercised. A proxy may be revoked, prior to its exercise, by signing and delivering a later dated proxy card, by submitting a later dated proxy by Internet or by telephone, by delivering written notice of the revocation of the proxy to Gray's Secretary prior to the annual meeting, or by attending and voting at the annual meeting. Attendance at the annual meeting, in and of itself, will not constitute a revocation of a proxy. Unless previously revoked, the shares represented by the enclosed proxy will be voted in accordance with the shareholder's directions if the proxy is duly submitted prior to the annual meeting.

If no directions are specified in a proxy delivered pursuant to this solicitation, the shares will be voted **FOR** the amendment to Gray's articles of incorporation to increase the number of shares of Gray class B common stock authorized for issuance, **FOR** the amendment to Gray's articles of incorporation to rename the Gray class B common stock as Gray common stock, **FOR** the election of the director nominees recommended by the board of directors, **FOR** approval of the Gray Television, Inc. 2002 Long Term Incentive Plan (the 2002 Incentive Plan), **FOR** ratification of the issuance of shares of Gray Series C convertible preferred stock, and in accordance with the discretion of the named proxies on other matters properly brought before the annual meeting.

The expense of preparing, printing and mailing this proxy statement and soliciting the proxies sought hereby will be borne by Gray. In addition to the use of the mail, proxies may be solicited by officers, directors and regular employees of Gray, who will not receive additional compensation therefor, in person or by telephone, telegraph or facsimile transmission. Gray also will request brokerage firms, banks, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares of Gray class A common stock and class B common stock as of the record date for the annual meeting and will provide reimbursement for the cost of forwarding the proxy materials in accordance with customary practice. Your cooperation in promptly signing and returning the enclosed proxy card will help to avoid additional expense.

At August 13, 2002, 6,848,467 shares of Gray class A common stock were outstanding and 8,905,161 shares of Gray class B common stock were outstanding. Only shareholders of record at the close of business on August 13, 2002 are entitled to notice of, and to vote at, the annual meeting.

This proxy statement and the enclosed proxy card are first being mailed to shareholders on or about August 16, 2002.

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**SUMMARY TERM SHEET**

*In this proxy statement, unless otherwise indicated, the words Gray, our, us and we refer to Gray Television, Inc. (formerly known as Gray Communications Systems, Inc.) and its subsidiaries. Our discussion of the television stations that we own and operate does not include our interest in the stations owned by Sarkes Tarzian, Inc.*

*On July 25, 2002, we changed our name to Gray Television, Inc. from Gray Communications Systems, Inc.*

*This summary term sheet relates to the merger discussed in more detail below under the sections entitled The Merger, and The Merger Agreement and Related Agreements which begin on page 17 of this proxy statement. You are not being asked to vote on the merger described herein. However, you are being asked to vote on several proposals relating to the merger, including the authorization of additional shares of Gray class B common stock in Proposal No. 1 and the approval of the 2002 Incentive Plan in Proposal No. 4. This summary highlights selected information regarding the merger and the merger agreement and may not contain all of the information that is important to you. To understand fully the proposals related to the merger and for a more complete description of the legal terms of the merger, you should carefully read this entire proxy statement and other documents we have referred you to, including the Agreement and Plan of Merger, which is attached hereto as Appendix A. See Where You Can Find Additional Information on page 109 of this proxy statement. The other proposals to be voted upon at the annual meeting, including the election of directors, the renaming of the Gray class B common stock and ratification of the issuance of shares of the Series C preferred stock, are described in more detail elsewhere in this proxy statement.*

**The Companies (pages 29 and 50)**

**Gray Television, Inc.**

4370 Peachtree Road, N.E.  
Atlanta, Georgia 30319  
(404) 504-9828

We currently own and operate 13 network-affiliated television stations in 11 medium-sized markets in the Southeast, Southwest and Midwest United States. Eleven of our 13 stations are ranked first in total viewing audience and news audience, with the remaining two stations ranked second in total viewing audience and second or third in news audience. Ten of our stations are affiliated with CBS Inc., or CBS, and three are affiliated with National Broadcasting Company, Inc. or NBC. We also own and operate four daily newspapers, three located in Georgia and one located in Goshen, Indiana, with a total daily circulation of over 126,000. In addition, we own and operate a paging business located in the Southeast that had approximately 68,000 units in service at June 30, 2002. For the year ended December 31, 2001, pro forma for the Stations acquisition, our television stations would have produced \$214.0 million of net revenue and \$84.7 million of broadcast cash flow. Including our publishing and other operations, we would have produced \$263.9 million of net revenue and \$97.0 million of media cash flow, on a pro forma basis.

**Stations Holding Company, Inc.**

2895 Greenspoint Parkway, Suite 250  
Hoffman Estates, Illinois 60195  
(847) 585-3450

Stations Holding Company, Inc., which we refer to as Stations, is the parent company of Benedek Broadcasting Corporation, which we refer to as Benedek. We plan to acquire in the merger 15 of the Benedek television stations. These television stations are geographically diverse and serve small to medium-sized markets in 11 states. Five of the stations are affiliated with CBS, six are affiliated with ABC, and four are affiliated with NBC.

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**Gray MidAmerica Television, Inc.**

4370 Peachtree Road, N.E.  
Atlanta, Georgia 30319  
(404) 504-9828

Gray MidAmerica Television, Inc., which we refer to as Gray MidAmerica Television, is a Delaware corporation recently formed by Gray solely for purposes of the merger.

**The Merger (page 17)**

On June 4, 2002, we executed a merger agreement with Stations. The merger agreement provides that we will acquire Stations by merging our newly formed wholly-owned subsidiary, Gray MidAmerica Television, into Stations. In consideration for Stations, we will pay an estimated consideration of \$502.5 million, a substantial portion of which will be used to satisfy, in full, certain outstanding indebtedness of Stations in accordance with an amended plan of reorganization filed by Stations with the United States bankruptcy court in Delaware on July 9, 2002. We intend to finance the merger by incurring approximately \$300.0 million of additional indebtedness and issuing \$250.0 million of equity. We may, depending on the relative conditions of the financial markets, increase or decrease our relative issuance of debt and equity securities to complete our financing of the merger.

**Merger Consideration (page 21)**

Under the merger agreement, each share of Stations senior preferred stock (excluding shares held by Stations or any of its subsidiaries, other than in a fiduciary capacity) issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive a cash payment, equal to the quotient obtained by dividing (1) \$500,000,000, *minus* (A) the amount outstanding at the effective time under Stations debt instruments plus accrued interest thereon through the effective time, determined in accordance with Stations plan of reorganization, *plus or minus* (B) working capital adjustments and adjustments relating to amounts incurred by Stations and its subsidiaries with respect to conversion of their television stations to digital broadcasting, divided by (2) 100,000 (the number of outstanding shares of Stations senior preferred stock at the effective time).

Each share of Stations junior preferred stock (excluding shares held by Stations or any of its subsidiaries, other than in a fiduciary capacity) issued and outstanding immediately prior to the effective time will be converted into the right to receive a cash payment equal to the quotient obtained by dividing (1) \$2,500,000 by (2) 450,000 (the number of outstanding shares of Stations junior preferred stock at the effective time).

Each share of Stations class A common stock and class B common stock and any options or warrants to acquire such shares issued and outstanding immediately prior to the effective time will be cancelled. We will not pay any consideration for such securities.

**Lock Up Agreements (page 27)**

On June 4, 2002, in connection with the transactions contemplated by the merger agreement, Stations and we entered into Lock Up, Voting and Consent Agreements with certain stockholders and creditors of Stations. Under these lock up agreements, these persons agreed to, among other things, support and vote their shares in favor of a Stations bankruptcy plan that will give effect to the transactions contemplated by the merger agreement. As of the date of this proxy statement, Stations has received executed lock up agreements from holders of 97.9% of the outstanding senior preferred stock, 98.8% of the outstanding junior preferred stock, 100% of the outstanding class B common stock, and 94.6% of the outstanding aggregate principal amount of the senior subordinated discount notes.

In addition, stockholders who signed a lock up agreement and hold Stations senior preferred stock have agreed to pay to us, if Stations receives an offer from a third party to purchase more than 50% of Stations outstanding senior preferred stock, and such offer is approved by the bankruptcy court, a

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termination fee of \$15.0 million. The liability of each stockholder is limited to an amount determined by multiplying \$15.0 million by such stockholders' pro rata interest in the total number of shares of senior preferred stock whose holders signed lock up agreements.

The United States Trustee in the Stations' bankruptcy proceeding has asserted that the lock up agreements contravene the Bankruptcy Code and cannot be enforced against a party if it chooses not to vote for the Stations' bankruptcy plan. The bankruptcy court has not yet ruled with respect to the U.S. Trustee's assertions, but Stations believes that the lock up agreements are enforceable under applicable law.

### **The Letter of Credit and Escrow Shares (page 22)**

When the merger agreement was signed, we delivered to Stations a standby letter of credit in the amount of \$12.5 million and deposited with an escrow agent 885,269 shares of our class B common stock. These escrow shares had an aggregate value of \$12.5 million, based on the average price of our class B common stock for the 20 consecutive trading days on The New York Stock Exchange ending on June 2, 2002.

If the merger is not consummated because of a material default by us, and Stations has not materially defaulted due to a breach of any of its representations or warranties or any of its covenants or agreements under the merger agreement, then Stations may draw on the letter of credit and instruct the escrow agent to deliver to it the escrow shares pursuant to the escrow agreement. The aggregate proceeds of the drawing on the letter of credit and the escrow shares will total \$25.0 million, but we may replace some or all of the escrow shares with a cash payment. Under all other circumstances, the letter of credit will be terminated and the escrow shares will be returned to us.

### **Conditions to the Merger (page 23)**

The parties' obligations to consummate the merger and related transactions generally are subject to the satisfaction or waiver of the following conditions:

the bankruptcy court approving the order confirming Stations' plan of reorganization and such confirmation order becoming a final bankruptcy court order;

the Federal Communications Commission, FCC, approving the transactions contemplated by the merger agreement, without any condition or qualification materially adverse to us or our subsidiaries or Stations or its subsidiaries, or materially adverse to our acquisition of control of Stations and its subsidiaries;

all regulatory waiting periods applicable to the merger agreement and the related transactions expiring or terminating;

subject to limited exceptions, the sale by Benedek of nine television stations to third parties; and

the satisfaction of other customary conditions specified in the merger agreement.

### **Termination of the Merger Agreement (page 26)**

The merger agreement may be terminated at any time prior to the effective time by Stations and us by mutual consent. In addition, generally, either party may terminate the merger agreement:

in the event of an uncured material breach by the other party of any of its representations, warranties or covenants contained in the merger agreement;

if the merger is not consummated by March 31, 2003; or

if it is reasonably anticipated that any of the conditions precedent to the obligations of the terminating party to consummate the merger cannot be satisfied or fulfilled by March 31, 2003 and such failure was not the fault of the terminating party.

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### **Effects of Termination (page 26)**

Subject to limited exceptions, if the merger agreement is terminated as described above, it will become void and have no effect. However, certain provisions of the merger agreement will survive termination, including provisions relating to the letter of credit and the escrow shares, confidentiality and expenses.

If the closing does not occur due to a material default by us, and Stations has not materially defaulted due to a breach of any of its representations or warranties or any of its covenants or agreements in the merger agreement, then Stations may draw on the letter of credit and instruct the escrow agent to deliver to it the escrow shares pursuant to the escrow agreement. As described above, we have an obligation to deliver a letter of credit and escrow shares totaling \$25 million, except that we may, in our sole discretion, replace some or all of the escrow shares with a cash payment, so long as any such cash payment is a whole number multiple of \$500,000.

### **Interests of Certain Persons in the Merger (page 18)**

In considering the recommendation of our board of directors with respect to the proposals in this proxy statement related to the merger, you should be aware that certain persons may have direct and indirect interests in the merger separate from the shareholders of Gray. These interests present these persons with potential conflicts of interest. For advisory services rendered by Bull Run Corporation, which we sometimes refer to as Bull Run, to us in connection with the merger, we advanced to Bull Run an advisory fee of \$5 million. The advisory fee must be repaid to us in the event the merger is not completed. Certain of our directors and executive officers are directors, executive officers and shareholders of Bull Run and Bull Run is one of our principal stockholders.

### **Bankruptcy Court Approval (page 19)**

Stations has filed a voluntary petition under Chapter 11 of the federal bankruptcy code. Consequently, the merger is subject to the bankruptcy court's approval of Stations' plan of reorganization, and all of Stations' obligations under the merger agreement are subject to the approval of the bankruptcy court. Stations filed the required information and materials with the bankruptcy court on July 9, 2002.

### **Regulatory Matters (page 19)**

Under the Communications Act of 1934, our acquisition of Stations may not be completed until the FCC has approved the assignment of the FCC licenses of Benedek to us.

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which we refer to as the HSR Act, our acquisition of Stations may not be completed until notifications have been given and information has been furnished to the Federal Trade Commission, which we sometimes refer to as the FTC, and the Anti-Trust Division of the United States Department of Justice and specified waiting period requirements have expired or been terminated. On June 20, 2002, Gray and Stations filed the required notification and report forms under the HSR Act with the FTC and the Anti-Trust Division. On July 1, 2002, we received early termination of the waiting period under the HSR Act.

### **Sale of Certain Designated Benedek Stations Prior to the Merger (page 19)**

Benedek has sold or plans to sell, prior to the effective time of the merger, a total of nine designated television stations, which we refer to as the excluded stations. Benedek plans to sell eight of the excluded stations to Chelsey Broadcasting Company, LLC, a Delaware limited liability company, which we refer to as Chelsey, or its affiliates pursuant to an asset purchase agreement. Benedek already has sold its television station in Wheeling, West Virginia to a third party on April 30, 2002. Benedek intends to use the net proceeds of these sales to repay indebtedness under its senior secured credit facility. The sale of the nine designated television stations is a condition to the merger.

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**Accounting Treatment of the Merger (page 19)**

We plan to account for the Stations acquisition using the purchase method of accounting. Generally, under the purchase method of accounting, assets acquired and liabilities assumed are recorded at their fair value.

**No Appraisal Rights Available to Gray Shareholders (Page 20)**

Under Georgia law, Gray shareholders who object to any of the proposals set forth in this proxy statement will not be afforded statutory appraisal rights.

**Market Price Information**

Gray class A common stock and class B common stock are listed on The New York Stock Exchange. On June 7, 2002, the last trading day before the public announcement of Gray's proposed acquisition of Stations, the last reported sales price per share of Gray class A common stock was \$16.90 and the last reported sales price per share of Gray class B common stock was \$14.15. On August 12, 2002, the last trading day before the date of this proxy statement, the last reported sales price per share of Gray class A common stock was \$15.07 and the last reported sales price per share of Gray class B common stock was \$11.95.



**Table of Contents****SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA**

Set forth below is our summary historical consolidated financial data. The financial data for, and as of the end of, each of the years in the five-year period ended December 31, 2001 was derived from the audited consolidated financial statements included in our Annual Reports on Form 10-K and from other information in the Annual Reports. The financial data for, and as of the six month periods ended June 30, 2002 and 2001 was derived from our unaudited accounting records and has been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management, includes all normal and recurring adjustments and accruals necessary for a fair presentation of such information. More comprehensive financial information is included in the Annual Reports and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002. The financial information that follows is qualified in its entirety by reference to, and should be read in conjunction with, the Annual Reports, the Quarterly Reports and all of the financial statements and related notes contained in the Annual Reports and the Quarterly Reports.

	Year Ended December 31,					Six Months Ended June 30,	
	1997(a)	1998(b)	1999(c)	2000	2001	2001	2002
(dollars in thousands except per share data)							
<b>Statements of Operations Data:</b>							
Revenues							
Broadcast (less agency commissions)	\$ 72,300	\$ 91,007	\$ 97,015	\$ 120,640	\$ 106,430	\$ 52,575	\$ 55,006
Publishing	24,536	29,330	37,808	41,499	41,189	19,927	21,216
Paging	6,712	8,553	9,130	9,074	8,725	4,405	4,083
Total revenues	103,548	128,890	143,953	171,213	156,344	76,907	80,305
Operating expenses							
Broadcast, publishing and paging	65,771	82,783	93,994	105,314	104,025	50,846	50,149
Corporate and administrative	2,528	3,063	3,448	3,594	3,615	1,829	2,116
Depreciation and amortization	14,519	18,117	24,451	31,207	30,824	15,696	7,433
Total operating expenses	82,818	103,963	121,893	140,115	138,464	68,371	59,698
Operating income	20,730	24,927	22,060	31,098	17,880	8,536	20,607
Gain on disposition of television stations		72,646					
Valuation adjustments of goodwill and other assets		(2,074)					
Appreciation (depreciation) in value of derivative, net					(1,581)	(961)	730
Miscellaneous income (expense), net	(31)	(242)	336	780	194	98	97
Income (loss) before interest expense, income taxes, extraordinary charge and cumulative effect of accounting change	20,699	95,257	22,396	31,878	16,493	7,673	21,434
Interest expense	21,861	25,454	31,021	39,957	35,783	18,167	16,866
Income (loss) before income taxes, extraordinary charge and cumulative effect of accounting change	(1,162)	69,803	(8,625)	(8,079)	(19,290)	(10,494)	4,568
Income tax expense (benefit)	240	28,144	(2,310)	(1,867)	(5,972)	(3,232)	1,616
Net income (loss) before extraordinary charge and cumulative effect of accounting change	(1,402)	41,659	(6,315)	(6,212)	(13,318)	(7,262)	2,952
Extraordinary charge on extinguishment of debt							(7,318)
Net income (loss) before cumulative effect of accounting change	(1,402)	41,659	(6,315)	(6,212)	(13,318)	(7,262)	(4,366)
Cumulative effect of accounting change, net							(30,592)
Net income (loss)	(1,402)	41,659	(6,315)	(6,212)	(13,318)	(7,262)	(34,958)
Preferred dividends	1,410	1,318	1,010	1,012	616	308	803

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Non-cash preferred dividends associated with preferred stock redemption	_____	3,360	_____	2,160	_____	_____	3,969
Net income (loss) available to common stockholders	\$ (2,812)	\$ 36,981	\$ (7,325)	\$ (9,384)	\$ (13,934)	\$ (7,570)	\$(39,730)

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	Year Ended December 31,					Six Months Ended June 30,	
	1997(a)	1998(b)	1999(c)	2000	2001	2001	2002
	(dollars in thousands except per share data)						
<b>Other Data:</b>							
Media cash flow(d)	\$ 38,061	\$ 46,624	\$ 50,944	\$ 66,247	\$ 53,074	\$ 26,411	\$ 30,520
Media cash flow margin(d)	36.8%	36.2%	35.4%	38.7%	33.9%	34.3%	38.0%
Operating cash flow(e)	\$ 35,533	\$ 43,561	\$ 47,496	\$ 62,653	\$ 49,459	\$ 24,582	\$ 28,404
Operating cash flow margin(e)	34.3%	33.8%	33.0%	36.6%	31.6%	32.0%	35.4%
Cash flows provided by (used in):							
Operating activities	\$ 9,744	\$ 20,074	\$ 20,842	\$ 22,765	\$ 16,823	\$ 8,268	\$ 3,355
Investing activities	(57,498)	(55,299)	(126,780)	(8,276)	(186,165)	(2,679)	154,741
Financing activities	49,071	34,744	105,839	(14,061)	167,685	(6,109)	(143,184)
Capital expenditures	10,372	9,271	11,712	5,702	7,593	2,597	8,133
Ratio of total debt to operating cash flow							7.1x(g)
Ratio of operating cash flow to interest expense							1.6(g)
<b>Balance Sheet Data (at end of period):</b>							
Cash and cash equivalents	\$ 2,367	\$ 1,887	\$ 1,787	\$ 2,215	\$ 169,115(f)	\$ 1,695	\$ 15,470
Total intangible assets, net	263,425	376,015	526,434	511,616	497,311	504,458	457,633
Total assets	345,051	468,974	658,157	636,772	794,337(f)	616,870	595,911
Long-term debt (including current portion)	227,076	270,655	381,702	374,887	551,444(f)	368,557	378,878
Preferred stock	11,111	7,371	7,371	4,637	4,637	4,637	39,234
Total stockholders' equity	92,295	126,703	168,188	155,961	142,196	148,765	98,288

- (a) Reflects the operating results of our acquisition of substantially all of the assets of WITN-TV and our acquisition of all of the outstanding common stock of GulfLink Communications, Inc. as of their respective acquisition dates, August 1, 1997 and April 24, 1997.
- (b) Reflects the operating results of our acquisition of all of the outstanding capital stock of Busse Broadcasting Corporation and our related acquisition of the assets of WEAU-TV in exchange for the assets of WALB-TV as of July 31, 1998, the closing date of the respective transactions. See Note B to our audited consolidated financial statements incorporated by reference in this proxy statement.
- (c) Reflects the operating results of our acquisition of all of the outstanding capital stock of KWTX Broadcasting Company and Brazos Broadcasting Company, as well as the assets of KXII Broadcasters Ltd., completed on October 1, 1999, and our acquisition of substantially all of the assets of The Goshen News from News Printing Company, Inc. and its affiliates, completed on March 1, 1999, as of their respective acquisition dates. See Note B to our audited consolidated financial statements incorporated by reference in this proxy statement.
- (d) Media cash flow is defined as operating income, plus depreciation and amortization (including amortization of program broadcast rights), non-cash compensation and corporate overhead, less payments for program broadcast obligations. Media cash flow margin is defined as media cash flow divided by revenues.
- (e) Operating cash flow is defined as media cash flow less corporate overhead. Operating cash flow margin is defined as operating cash flow divided by revenues.

We have included media cash flow, operating cash flow and certain related calculations because such data is commonly used as a measure of performance for media companies and is also used by investors to measure a company's ability to service debt. Media cash flow, operating cash flow and certain related calculations are not, and should not, be used as an indicator or alternative to operating income, net income or cash flow as reflected in our consolidated financial statements. Media cash flow, operating cash flow and certain related calculations are not measures 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.

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(f) On December 21, 2001, we deposited \$168.6 million with the trustee of our 10 5/8% Senior Subordinated Notes due 2006 to redeem those notes, including payment of principal, the applicable premium costs and accrued interest through the redemption date of January 22, 2002. Total assets include the \$168.6 million reflected as restricted cash for redemption of long-term debt and long-term debt(including current portion) includes the related \$155.2 million of our 10 5/8% notes that were extinguished on January 22, 2002.

(g) Represents ratios for the 12 months ended June 30, 2002.

(h) The following table presents the transitional disclosures regarding the adoption of SFAS 142:

	Year Ended December 31,					Six Months Ended June 30,	
	1997(a)	1998(b)	1999(c)	2000	2001	2001	2000
(dollars in thousands except per share data)							
Reported net income (loss) before extraordinary charge and cumulative effect of accounting	\$ (1,402)	\$ 41,659	\$ (6,315)	\$ (6,212)	\$ (13,318)	\$ (7,262)	\$ 2,952
Add back: amortization of goodwill and intangible assets with indefinite lives, net of tax	4,175	5,697	8,499	11,022	11,033	5,516	
Adjusted net income (loss) before extraordinary charge and cumulative effect of accounting change	\$ 2,773	\$ 47,356	\$ 2,184	\$ 4,810	\$ (2,285)	\$ (1,746)	\$ 2,952
Basic earnings per common share(d):							
Reported net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ (0.24)	\$ 3.10	\$ (0.57)	\$ (0.61)	\$ (0.89)	\$ (0.49)	\$ (0.12)
Add back: amortization of goodwill and intangible assets with indefinite lives, net or tax	0.35	0.48	0.66	0.71	0.71	0.36	
Adjusted net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ 0.11	\$ 3.58	\$ 0.09	\$ 0.10	\$ (0.18)	\$ (0.13)	\$ (0.12)
Diluted earnings per common share(d):							
Adjusted net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ 0.11	\$ 3.44	\$ 0.09	\$ 0.10	\$ (0.18)	\$ (0.13)	\$ (0.12)

**Table of Contents****SUMMARY UNAUDITED PRO FORMA FINANCIAL DATA**

The unaudited pro forma combined condensed statements of operations for the six months ended June 30, 2002 and June 30, 2001 reflect the transactions associated with the acquisition of Stations as if they had been completed on January 1, 2001. The unaudited pro forma combined condensed statement of operations for the year ended December 31, 2001 reflects these transactions as if they had been completed on January 1, 2001. The June 30, 2002 unaudited pro forma combined condensed balance sheet reflects these transactions as if they had been completed on June 30, 2002. The unaudited pro forma financial statements are presented under **Unaudited Pro Forma Financial Data** in this proxy statement.

The unaudited pro forma financial data presented below is for illustrative purposes only and is not necessarily indicative of the operating results that would have actually occurred had the acquisition of Stations been completed, nor is it necessarily indicative of future operating results. The unaudited pro forma financial data should be read in conjunction with our consolidated financial statements and notes thereto incorporated by reference in this proxy statement, and in conjunction with Stations' consolidated financial statements and notes thereto included in this proxy statement. See **Unaudited Pro Forma Financial Data** included in this proxy statement for further information about the compilation of the unaudited pro forma financial data.

	<b>Pro Forma Year Ended December 31, 2001</b>	<b>Pro Forma Six Months Ended June 30,</b>	
		<b>2001</b>	<b>2002</b>
<b>Statements of Operations Data:</b>			
Revenues			
Broadcast (less agency commissions)	\$ 213,991	\$ 104,603	\$ 109,647
Publishing	41,189	19,927	21,216
Paging	8,725	4,405	4,083
Total revenues	263,905	128,935	134,946
Operating expenses			
Broadcast, publishing and paging	168,032	83,729	83,091
Corporate and administrative	7,251	3,861	4,023
Depreciation and amortization	40,406	20,487	12,224
Total operating expenses	215,689	108,077	99,338
Operating income	48,216	20,858	35,608
Interest expense	55,144	27,919	26,618
Appreciation (depreciation) in value of derivative, net	(1,581)	(961)	730
Miscellaneous income, net	352	185	153
Income (loss) from continuing operations before provision for (benefit from) income taxes	(8,157)	(7,837)	9,873
Income tax expense (benefit)	(1,458)	(1,983)	3,597
Net income (loss) from continuing operations	(6,699)	(5,854)	6,276
Preferred dividends	3,200	1,600	1,600
Net income (loss) from continuing operations available to common stockholders	\$ (9,899)	\$ (7,454)	\$ 4,676
<b>Other Data:</b>			
Media cash flow(a)	\$ 97,008	\$ 45,609	\$ 51,897
Media cash flow margin(a)	36.8%	35.4%	38.5%
Operating cash flow(b)	\$ 89,757	\$ 41,748	\$ 47,874

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Operating cash flow margin(b)	34.0%	32.4%	35.5%
Capital expenditures	\$ 21,283	\$ 8,314	\$ 12,776
Ratio of total debt to operating cash flow			6.9(c)
Ratio of operating cash flow to interest expense			1.8(c)

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	Pro Forma Year Ended December 31, 2001	Pro Forma Six Months Ended June 30,	
		2001	2002
<b>Balance Sheet Data (at end of period):</b>			
Cash and cash equivalents			\$ 5,241
Total intangible assets, net			1,028,377
Total assets			1,234,469
Long-term debt (including current portion)			660,749
Preferred stock			39,234
Total stockholders' equity			328,168

(a) Media cash flow is defined as operating income, plus depreciation and amortization (including amortization of program broadcast rights), non-cash compensation and corporate overhead, less payments for program broadcast obligations. Media cash flow margin is defined as media cash flow divided by revenues.

(b) Operating cash flow is defined as media cash flow less corporate overhead. Operating cash flow margin is defined as operating cash flow divided by revenues.

We have included media cash flow, operating cash flow and certain related calculations because such data is commonly used as a measure of performance for media companies and is also used by investors to measure a company's ability to service debt. Media cash flow, operating cash flow and certain related calculations are not, and should not, be used as an indicator or alternative to operating income, net income or cash flow as reflected in our consolidated financial statements. Media cash flow, operating cash flow and certain related calculations are not measures 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.

(c) Represents ratios for the 12 months ended June 30, 2002.

(d) The following table presents the transitional disclosures regarding the adoption of SFAS 142:

	Pro Forma Year Ended December 31, 2001	Pro Forma Six Months Ended June 30,	
		2001	2002
Reported net income (loss) before extraordinary charge and cumulative effect of accounting change	\$ (6,699)	\$ (5,854)	\$ 6,276
Add back: amortization of goodwill and intangible assets with indefinite lives, net of tax	11,033	5,516	
Adjusted net income (loss) before extraordinary charge and cumulative effect of accounting change	\$ 4,334	\$ (338)	\$ 6,276
Basic earnings per common share:			
Reported net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ (0.29)	\$ (0.22)	\$ 0.14
Add back: amortization of goodwill and intangible assets with indefinite lives, net or tax	0.32	0.16	
Adjusted net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ 0.03	\$ (0.06)	\$ 0.14

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Diluted earnings per common share:

Adjusted net income (loss) before extraordinary charge and cumulative  
effect of accounting change available to common stockholders

\$ 0.03

\$ (0.06)

\$ 0.13



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**VOTING REQUIREMENTS**

**Record Date and Voting Rights**

Our board of directors has fixed the close of business on August 13, 2002 as the record date for determining holders of Gray class A common stock and class B common stock entitled to notice of, and to vote at, the annual meeting. Only holders of record of Gray class A common stock and class B common stock on that date will be entitled to notice of, and to vote at, the annual meeting. Shareholders of record may vote by either:

attending the annual meeting;

the Internet at <http://www.eproxy.com/gtn>;

the telephone at 800-435-6710 as directed on the enclosed proxy card; or

completing and mailing the enclosed proxy card.

Instructions for voting are included on the enclosed proxy card.

As of the record date, August 13, 2002, 6,848,467 shares of Gray class A common stock and 8,905,161 shares of Gray class B common stock were outstanding. Each share of Gray class A common stock is entitled to 10 votes and each share of Gray class B common stock is entitled to one vote. The total number of possible votes is 77,389,831. A number of votes equal to or greater than a majority of possible votes, or 38,694,916 votes (including abstentions and broker non-votes), will constitute a quorum. No business may be transacted at the annual meeting without a quorum. Abstentions and broker non-votes (where a broker submits a proxy but does not have discretionary authority to vote a customer's shares on such proposal when specific instructions are not received) will be counted as present for purposes of determining a quorum.

**Required Votes**

With respect to Proposal No. 1, the proposed amendment to our articles of incorporation to increase the number of shares of Gray class B common stock authorized for issuance, and Proposal No. 2, the proposed amendment to our articles of incorporation to rename the Gray class B common stock as Gray common stock, the approval of both (1) a majority of the votes represented by all of the outstanding shares of Gray class A common stock and class B common stock, voting together as a single class, and (2) a majority of the votes represented by all of the outstanding shares of Gray class B common stock, voting as a separate class, is required for approval of the proposals. An abstention or broker non-vote will have the effect of a vote against each proposal.

With respect to Proposal No. 3, the election of directors, a majority of the votes is not required; instead, the nominees will be elected by a plurality of the votes cast, which means that the nominees receiving the most votes will be elected. Votes withheld from any nominee, if a quorum is present, will have no effect on the outcome of voting for directors. Abstentions and broker non-votes will not be counted and will have no effect on the outcome of the election of directors.

With respect to Proposal No. 4, the proposal to approve the 2002 Incentive Plan, and Proposal No. 5, the proposal to ratify the issuance of shares of Gray Series C convertible preferred stock, the approval of a majority of the votes cast by the holders of shares of Gray class A common and class B common stock, voting together as a single class, is required; provided, however, that the total votes cast on each proposal must represent over 50% of the total number of votes entitled to be cast by the holders of all of the outstanding shares of Gray class A common and class B common stock, voting together as a single class. Abstentions and broker non-votes will be excluded from the tabulation of votes cast on these proposals and, therefore, will not affect the outcome of the vote on these proposals.

The holders of Gray class A common stock and class B common stock are not entitled to appraisal rights under Georgia law with respect to any of the proposals set forth in this proxy statement.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this proxy statement, the words believes, expects, anticipates, estimates, and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe our future strategic plans, goals or objectives including our plans, goals or objectives with respect to the merger, are also forward-looking statements. Readers of this proxy statement are cautioned that any forward-looking statements, including those regarding the intent, belief or current expectations of our management or us, 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:

general economic conditions in the markets in which we and Stations operate;

our ability to obtain financing for the Stations acquisition on suitable terms;

our ability to obtain approvals or consents to the merger from certain federal regulatory agencies, including the FCC, and the United States bankruptcy court in Delaware;

our ability to successfully integrate Stations following the merger;

our ability to retain key members of management of Gray and Stations;

competitive pressures in the markets in which we and Stations operate;

certain other risks relating to our business, including, among others, our history of losses over the last three years, our dependence on advertising revenues, our need to acquire non-network television programming, the impact of a loss of any of our network affiliation arrangements, increased competition and capital costs relating to digital advanced television, potential conflicts of interest of directors and officers, pending litigation relating to our ownership of Sarkes Tarzian, the deficiency asserted by the Internal Revenue Service for 1996, our significant level of intangible assets, any potential write-downs with respect to our intangible assets that may be required as a result of new accounting standards, and our ability to identify and integrate acquisitions successfully or on commercially acceptable terms;

intensification of the risks relating to our business as a result of the Stations acquisition;

certain other risks relating to regulatory matters, including, without limitation, FCC regulations that limit our operating flexibility, FCC duopoly restrictions that limit our ability to operate multiple television stations in a single market, federal regulation of our paging operations, and the effect of future legislation or regulatory changes, such as recent proposals for campaign finance reform that may limit political advertising; and

certain other risks relating to our high level of indebtedness.

The forward-looking statements included in this proxy statement are made only as of the date hereof. We undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

**INDUSTRY, MARKET AND RANKING DATA**

In this proxy statement, we rely on and refer to market information regarding the television industry from BIA Financial Network, Inc.'s MEDIA Access ProTM Version 3.1, updated as of July 1, 2002, which we refer to as BIA. We also rely on and refer to market information regarding the television industry from Nielsen Station Index, Viewers in Profile, dated May 2002, as prepared by A.C. Nielsen Company, which we refer to as Nielsen. Although we believe that the information obtained from third parties is reliable, we have not independently verified the accuracy and completeness of the information. To the extent the information contains forward-looking statements, readers of this proxy statement are

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cautioned that these statements involve risks and uncertainty and that actual results may differ materially from those in these statements, similarly to that described in Cautionary Notice Regarding Forward-Looking Statements above. All statements as to station ranking in this proxy statement are based on Nielsen data for the 6:00 a.m. to 2:00 a.m. Sunday through Saturday time period, except that data in the Selected Station and Market Information Regarding Gray and Stations section in the tables titled Competitive Landscape is based on BIA data for the 9:00 a.m. to midnight Sunday through Saturday time period.

When we refer in this proxy statement to our markets, we include Hazard, Kentucky as a separate market. Hazard, Kentucky is a special 16 county trading area defined by Nielsen and is part of the Lexington, Kentucky designated market area.

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**PROPOSAL 1: AMENDMENT TO OUR ARTICLES OF INCORPORATION TO  
INCREASE THE NUMBER OF AUTHORIZED SHARES OF GRAY CLASS B COMMON STOCK  
FROM 15,000,000 AUTHORIZED SHARES TO 50,000,000 AUTHORIZED SHARES**

On June 4, 2002, Gray, Gray MidAmerica Television and Stations entered into a merger agreement, under which Gray MidAmerica Television will merge with and into Stations. Stations will survive the merger and will become a wholly-owned subsidiary of Gray. In consideration for Stations, we will pay an estimated consideration of \$502.5 million, a substantial portion of which will be used to satisfy, in full, certain outstanding indebtedness of Stations in accordance with an amended plan of reorganization filed by Stations with the United States bankruptcy court in Delaware on July 9, 2002. We may pay additional cash consideration of \$9.3 million for certain estimated net working capital, as specified in the merger agreement. In addition, after the merger is completed, we intend that certain former employees of Stations who become employees of Gray will be eligible to receive options to purchase shares under the 2002 Incentive Plan. More detailed descriptions of the merger are included below under the headings *The Merger* and *The Merger Agreement and Related Agreements*.

We intend to finance the merger by incurring additional indebtedness and issuing additional equity securities, including additional shares of Gray class B common stock. See *The Merger Financing of the Merger*. Under our articles of incorporation, we are currently authorized to issue 15,000,000 shares of Gray class B common stock, no par value per share, of which 8,882,441 were outstanding and 5,701,215 were reserved for future issuance, as of July 12, 2002. In connection with the transactions related to the merger, including our contemplated offering of additional shares of Gray class B common stock or securities convertible into Gray class B common stock, and Proposal No. 4 to approve the 2002 Incentive Plan, our board of directors has unanimously approved a proposal to amend our articles of incorporation to increase the number of shares of Gray class B common stock authorized for issuance. Under the proposed amendment, the number of shares of Gray class B common stock authorized for issuance would be increased from 15,000,000 authorized shares to 50,000,000 authorized shares. Gray class B common stock has no preemptive or conversion rights or other subscription rights. Our board of directors believes that the proposed amendment to our articles of incorporation is in the best interests of us and our shareholders.

In addition to providing a sufficient number of shares of Gray class B common stock for our contemplated offering and for the granting of options under the 2002 Incentive Plan to former employees of Stations who become employees of us following the merger, our board of directors believes that the increase would benefit us by providing greater flexibility to facilitate an acquisition strategy, to provide stock-related employee benefits and to provide flexibility for raising additional funds for general corporate needs.

The approval of this amendment to our articles of incorporation is not a condition precedent to the merger. If our shareholders do not approve the increase in the number of authorized shares of Gray class B common stock, we will be required to obtain additional funds through our existing credit facility or by issuing additional debt or preferred securities in order to finance our acquisition of Stations. If we are unable to obtain sufficient financing, we will be unable to complete the merger and may be required to deliver to Stations a letter of credit, escrow shares and/or cash totalling \$25 million. See *The Merger Agreement of Related Agreements The Letter of Credit and the Escrow Shares*. If approved by our shareholders, this proposal will be implemented even if we do not complete the merger.

Depending on the consideration per share received by us for any subsequent issuance of Gray class B common stock, such issuance could have a dilutive effect on those shareholders who paid a higher consideration per share for their stock. Also, future issuances will increase the number of outstanding shares of Gray class B common stock, thereby decreasing the percentage ownership in Gray (for voting, distributions and all other purposes) represented by existing shares of Gray class B common stock. The availability for issuance of the additional shares of Gray class B common stock and any issuance thereof may be viewed as having the effect of discouraging an unsolicited attempt by another person or entity to acquire control of Gray.

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The amended articles of incorporation, assuming approval by our shareholders at the annual meeting, will be filed with the Secretary of State of the State of Georgia as soon as practicable after the date of the annual meeting. Without any further action on the part of our shareholders, the amendment will become effective on the date of such filing.

**Our board of directors unanimously recommends that you vote FOR approval of the proposal to amend our articles of incorporation to increase the number of authorized shares of Gray class B common stock from 15,000,000 authorized shares to 50,000,000 authorized shares.**

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**THE MERGER**

*This section of this proxy statement describes certain material aspects of the proposed merger. This summary does not contain all of the information that is important to you. You should carefully read this entire proxy statement and the other documents to which we refer you, including the merger agreement attached hereto as Appendix A, for a more complete understanding of the merger.*

**The Other Parties**

Stations is the parent company of Benedek. Stations' principal executive offices are located at 2895 Greenspoint Parkway, Hoffman Estates, Illinois 60195, telephone number (847) 585-3450. Gray MidAmerica Television is our newly-formed wholly-owned subsidiary, formed solely for the purpose of effecting the merger.

**Background of the Merger**

Prior to the fourth quarter of 2001, Robert S. Prather, Jr., our Executive Vice President - Acquisitions, and A. Richard Benedek, Chief Executive Officer of Stations, periodically discussed general business conditions and mutually beneficial opportunities, including the potential acquisition by Gray of various Benedek television stations.

Late in 2001, Stations and its financial advisor approached us in connection with Stations' efforts to sell certain of its assets in an effort to reduce its level of outstanding debt. We had discussions with Stations and its financial advisor regarding our purchase of selected assets of Stations and analyzed the feasibility of such an acquisition. As a result of our discussions and analysis regarding an acquisition of selected assets of Stations, we determined that an acquisition of all or substantially all of the assets of Stations would be more efficient for Gray.

Throughout December 2001, we had ongoing discussions with Stations regarding current business conditions and the benefits of a potential acquisition by Gray of Stations. On December 19, 2001, we entered into a confidentiality agreement with Stations. At this point, Stations provided to us background information concerning Stations' business, and we began to conduct very generalized due diligence.

Throughout January 2002, Mr. Prather met from time to time with Mr. Benedek, as well as with Stuart Feldman of Chelsey Capital Profit Sharing Plan, the principal holder of Stations senior preferred stock, to continue discussions regarding a potential acquisition of Stations by Gray. Messrs. Prather and Benedek also began discussions of the purchase price Gray would be willing to propose. Throughout February 2002, we continued discussions with Stations regarding current business conditions, the benefits of the acquisition and the purchase price we would be willing to pay in the acquisition.

In early March 2002, Mr. Prather spoke with Mr. Benedek and indicated that we would be willing to offer \$500 million, less certain outstanding indebtedness of Stations, to acquire all of the outstanding capital stock of Stations, subject to satisfactory completion of due diligence and negotiation of a definitive agreement. Mr. Benedek indicated that the proposed purchase price might be acceptable to Stations board of directors subject to the parties' agreement on other terms of the proposed acquisition.

On or about March 1, 2002, we forwarded an initial draft of a letter of intent regarding our proposed acquisition of Stations. From March 1, 2002 through April 1, 2002, we conducted negotiations regarding the terms of the letter of intent, including the potential sale by Stations of various designated Benedek television stations in one or more transactions separate from our proposed acquisition.

After reaching agreement on the final terms of the non-binding letter of intent on April 1, 2002, we and Stations executed and delivered the letter of intent, whereby we agreed to acquire all of the outstanding capital stock of Stations for a purchase price of \$500 million, less consolidated indebtedness of Stations, subject to, among other things, negotiation and execution of a definitive merger agreement, receipt of necessary governmental consents and bankruptcy court approvals and completion of a due diligence review by us of Stations. In the letter of intent, we also agreed that Stations could sell in one or

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more separate transactions nine designated Benedek television stations prior to completion of the transaction. On April 1, 2002, we also issued a press release announcing the execution of the letter of intent and the transactions contemplated thereby.

On April 10, 2002, our outside legal counsel commenced a due diligence review of Stations. Our independent auditors subsequently joined the due diligence review. In addition, throughout April and May representatives of Gray conducted on-site due diligence reviews of various Benedek television stations.

On April 23, 2002, our outside legal counsel delivered a draft of the merger agreement to Stations' outside legal counsel. Throughout our due diligence review of Stations, the parties, together with their respective outside legal counsel, conducted negotiations with respect to the terms of the merger agreement, as well as an escrow agreement, letter of credit, lock up agreements, an asset purchase agreement for the designated stations and other related agreements.

In the middle of May 2002, representatives of Gray met with representatives of Stations in New York for several days to discuss, among other things, the stations that would not be acquired by us in the acquisition. In late May 2002, the parties reached an agreement with respect to the treatment of those designated stations, whereby the designated stations would be sold to the principal holder of Stations senior preferred stock. Accordingly, the parties, together with their respective outside legal counsel, continued to negotiate the merger agreement and related agreements. As a result of final negotiations, we agreed to pay an aggregate base consideration of \$502.5 million in the acquisition.

At a special meeting of our board of directors on May 31, 2002, our board of directors approved the merger agreement, along with the related agreements described above. On May 31, 2002, Stations' board of directors met and approved the merger agreement and related agreements. The merger agreement and the related agreements were executed by each party effective June 4, 2002.

## **Our Reasons for the Merger**

Our business strategy includes continued acquisitions of companies whose businesses are complementary to ours. We believe that Stations is an excellent strategic fit and that the acquisition of Stations will create significant benefits, including:

the acquisition will create a stronger company and will diversify the geographic range of our television stations, broadening substantially our market presence in the television broadcasting market;

the acquisition gives us access to additional operating cash flow for the purposes of funding debt service, as well as future acquisitions and investments;

the acquisition presents an opportunity to increase revenue share and audience share;

the acquisition presents an opportunity for cross-promotion and cross-selling; and

the acquisition strengthens our management teams and local news operations.

## **Interests of Certain Persons in the Merger**

In considering the recommendation of Gray's board of directors with respect to the proposals in this proxy statement related to the merger, including the proposal to increase the number of authorized shares of Gray Class B common stock and the proposal to approve the 2002 Incentive Plan, you should be aware that certain persons may have direct and indirect interests in the merger separate from the shareholders of Gray, including the interests described below. These interests present these persons with potential conflicts of interest.

For advisory services rendered by Bull Run, one of our principal stockholders, to us in connection with the merger, we advanced to Bull Run a fee of \$5.0 million on June 10, 2002. In the event that the merger is not completed, Bull Run will be required to repay to us the advisory fee in full. J. Mack Robinson, President, Chief Executive Officer and director of Gray, is chairman of Bull Run and is the

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beneficial owner of approximately 24.9% of Bull Run's common stock. Robert S. Prather, Jr., Executive Vice President Acquisitions and a director of Gray, is President, Chief Executive Officer and a director of Bull Run and the beneficial owner of approximately 8.7% of Bull Run's common stock. Hilton H. Howell, Jr., Executive Vice President and a director of Gray, is Vice President, Secretary and a director of Bull Run. For information regarding the beneficial ownership of shares of Gray class A common stock and class B common stock by Messrs. Robinson, Prather and Howell, see Proposal No. 3: Election of Directors Share Ownership.

## **Bankruptcy Court and Regulatory Filings and Approvals**

*Bankruptcy Court.* Stations has filed a voluntary petition under Chapter 11 of the federal bankruptcy code. Consequently, the merger is subject to the bankruptcy court's approval of Stations' amended plan of reorganization, and all of Stations' obligations under the merger agreement are subject to the approval of the bankruptcy court. Stations filed the required information and materials with the bankruptcy court on July 9, 2002.

*Federal Communications Commission.* The merger is subject to approval by the FCC. Stations and its subsidiaries and we and our subsidiaries filed with the FCC the necessary application with respect to the change of control on June 10, 2002.

*Antitrust.* The merger is subject to the requirements of the HSR Act, which provides that certain transactions may not be consummated until required information and materials have been furnished to the Department of Justice and the Federal Trade Commission, which we sometimes refer to as the "FTC," and certain waiting periods have expired or been terminated. Stations and we filed the required information and materials with the Department of Justice and the FTC on June 20, 2002. Early termination of the statutory waiting period under the HSR Act was granted on July 1, 2002.

The Department of Justice and the FTC frequently scrutinize the legality under the antitrust laws of transactions such as the merger. At any time before or after the effective time, either the Department of Justice or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, or certain other persons could take action under the antitrust laws, including seeking to enjoin the merger.

## **Sale of Certain Designated Benedek Stations Prior to the Merger**

Benedek has sold or plans to sell, prior to the effective time of the merger, a total of nine designated television stations, which we refer to as the "excluded stations." Benedek plans to sell eight of the excluded stations to Chelsey Broadcasting Company, LLC, a Delaware limited liability company, which we refer to as "Chelsey," or its affiliates pursuant to an asset purchase agreement. Benedek already has sold its television station in Wheeling, West Virginia to a third party on April 30, 2002. Benedek intends to use the net proceeds of these sales to repay indebtedness under its senior secured credit facility. The sale of the nine designated television stations is a condition to the merger.

## **Accounting Treatment**

The merger will be accounted for as a purchase for financial accounting purposes in accordance with accounting principles generally accepted in the United States. For purposes of preparing our consolidated financial statements, we will establish a new accounting basis for Stations' assets and liabilities based upon their fair values, the merger consideration and the costs of the merger. Any excess of cost over the fair value of the net assets of Stations will be recorded as goodwill and other intangible assets. A final determination of the intangible asset values and required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. We will determine the fair value of Stations' assets and liabilities and will make appropriate purchase accounting adjustments, including adjustments to the amortization period of the intangible assets, upon completion of that determination.



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**Financing of the Merger**

In the merger, we expect that we will pay an estimated consideration of approximately \$502.5 million, a substantial portion of which will be used to satisfy, in full, certain outstanding indebtedness of Stations in accordance with a plan of reorganization filed by Stations with the United States bankruptcy court in Delaware. Under the merger agreement, we may pay an additional \$9.3 million for certain estimated net working capital of Stations. We intend to finance the merger by incurring approximately \$300.0 million of additional indebtedness and issuing \$250.0 million of equity. We may, depending on the relative conditions of the financial markets, increase or decrease our relative issuance of debt and equity securities to complete our financing of the merger. If we are unable to obtain sufficient financing, we may be unable to complete the merger and may be required to deliver to Stations a letter of credit, escrow shares and/or cash totaling \$25 million. See The Merger Agreement and Related Agreements The Letter of Credit and the Escrow Shares.

**Voting**

You are not being asked to vote on the merger described in this proxy statement. However, you are being asked to vote on several proposals relating to the merger, including the proposal to increase the number of authorized shares of Gray class B common stock in Proposal No. 1 and the proposal to approve the 2002 Incentive Plan in Proposal No. 4. For a description of the votes required to approve each of these proposals, as well as the other proposals included in this proxy statement, see Voting Requirements Required Vote.

**No Appraisal Rights Available to Gray Shareholders**

Under Georgia law, Gray shareholders who object to any of the proposals set forth in this proxy statement will not be afforded statutory appraisal rights.

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**THE MERGER AGREEMENT AND RELATED AGREEMENTS**

*This section of the proxy statement describes the material terms of the Agreement and Plan of Merger, dated as of June 4, 2002, among Stations, Gray MidAmerica Television and us and related agreements, including the Lock Up, Voting and Consent Agreements that Stations and we entered into with certain stockholders and creditors of Stations, an agreement regarding benefits to be provided to members of the Benedek family following consummation of the merger and an amendment to K. James Yager's employment agreement. A copy of the merger agreement is attached as Appendix A to this proxy statement. You are urged to read the merger agreement in its entirety for a more complete description of the merger because it is the principal legal document that governs the merger.*

**The Merger**

Subject to the terms and conditions of the merger agreement, we will acquire Stations through the merger of Gray MidAmerica Television with and into Stations. Stations will be the surviving corporation in the merger.

**Effective Time**

The merger will be consummated when a certificate of merger, that we will file with the State of Delaware, becomes effective. The merger agreement provides that the parties will use their reasonable efforts to cause the effective time to occur on the seventh business day after the satisfaction or waiver of all the conditions to the merger. See The Merger Agreement and Related Agreements Conditions to the Merger. However, the effective time may not occur prior to October 1, 2002.

The merger agreement further provides that we may, on one occasion, delay the effective time for up to 120 days if any of the following occurs: (1) any general suspension of trading in equity securities in the United States securities or financial markets for more than two consecutive trading days; (2) a declaration of a banking moratorium or any suspension of payments in respect of banks by federal or state authorities in the United States; (3) commencement of a war, armed hostilities or other national or international calamity directly involving the United States; (4) any limitation by any governmental authority on the extension of credit by banks or other lending institutions in the United States; or (5) if any of the foregoing exists on the date the merger agreement is signed, a material acceleration or worsening thereof.

**Merger Consideration and Conversion of Gray MidAmerica Television and Stations Stock**

At the effective time of the merger, the outstanding shares of Stations 11.5% Senior Exchangeable Preferred Stock, which we refer to as the senior preferred stock, and Junior Discount Preferred Stock, which we refer to as the junior preferred stock, will be converted into the right to receive a cash payment. No cash consideration will be paid to holders of outstanding shares of Stations class A common stock and class B common stock. The stock of Gray MidAmerica Television and Stations will be converted as described below:

*Gray MidAmerica Television Common Stock.* Each share of Gray MidAmerica Television common stock issued and outstanding immediately prior to the effective time will be converted into one share of Stations class B common stock.

*Stations Senior Preferred Stock.* Each share of Stations senior preferred stock (excluding shares held by Stations or any of its subsidiaries, other than in a fiduciary capacity) issued and outstanding immediately prior to the effective time will be converted into the right to receive the senior preferred stock purchase price, equal to the quotient obtained by dividing (1) \$500,000,000, *minus* (A) the amount outstanding at the effective time under Stations debt instruments plus accrued interest thereon through the effective time, determined in accordance with Stations plan of reorganization, *plus or minus* (B) working capital adjustments and adjustments relating to amounts incurred by Stations and its subsidiaries with respect to the conversion of their television stations to digital

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broadcasting by (2) 100,000 (the number of outstanding shares of Stations senior preferred stock at the effective time).

*Stations Junior Preferred Stock.* Each share of Stations junior preferred stock (excluding shares held by Stations or any of the Stations subsidiaries, other than in a fiduciary capacity) issued and outstanding immediately prior to the effective time will be converted into the right to receive a cash payment equal to the quotient obtained by dividing (1) \$2,500,000 by (2) 450,000 (the number of outstanding shares of Stations junior preferred stock at the effective time).

*Stations Class A Common Stock and Class B Common Stock.* Each share of Stations class A common stock and class B common stock and any options or warrants to acquire such shares issued and outstanding immediately prior to the effective time will be cancelled. We will not pay any cash consideration for such securities.

**The Letter of Credit and the Escrow Shares**

When the merger agreement was signed, we delivered to Stations a standby letter of credit in the amount of \$12.5 million and deposited with an escrow agent, 885,269 shares of our class B common stock. These escrow shares had an aggregate value of \$12.5 million, based on the average price of our class B common stock for the 20 consecutive trading days on the New York Stock Exchange ending on June 2, 2002. The escrow shares are being held by the escrow agent in accordance with the terms of an escrow agreement that we executed on June 4, 2002. We will maintain the letter of credit in effect, and the escrow shares will remain in escrow, until the earlier of the effective time or 10 business days after the termination of the merger agreement. If the letter of credit or any replacement letter of credit expires before either of the dates described in the previous sentence, we will renew the letter of credit or obtain a replacement letter of credit, which we will deliver to Stations at least five business days before such expiration.

If the merger is not consummated because of a material default by us, and Stations has not materially defaulted due to a breach of any of its representations or warranties or any of its covenants or agreements under the merger agreement, then Stations may draw on the letter of credit and instruct the escrow agent to deliver to it the escrow shares pursuant to the escrow agreement. We have an obligation to deliver a letter of credit and escrow shares totaling \$25 million, except that we may, in our sole discretion, replace some or all of the escrow shares with a cash payment, so long as any such cash payment is a whole number multiple of \$500,000. Under specified circumstances, if Stations is entitled to receive the escrow shares and the value of the escrow shares decreases to below \$12.5 million at the time Stations sells them, we may be required to pay to Stations the amount of such decrease. Likewise, if the value of the escrow shares increases, Stations may be required to pay to us the amount of such increase. At the effective time and subject to the conditions in the merger agreement and the escrow agreement, the letter of credit and the escrow shares will be returned to us.

**Registration of the Escrow Shares**

The escrow shares have not been registered under the Securities Act of 1933, as amended, which we sometimes refer to as the Securities Act, or any other applicable securities laws, and therefore are restricted securities. If the merger agreement is terminated and the escrow shares are delivered by the escrow agent to Stations, we are required to:

file with the SEC a registration statement with respect to the resale or distribution of the escrow shares by Stations and/or an affiliate of Stations, within 30 days after such termination;

use our best efforts to cause the registration statement to be declared effective at the earliest practicable time;

keep the registration statement effective and current until the earlier of six months following the effectiveness of the registration statement or the date that all of the escrow shares covered by the registration statement have been sold or distributed;

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cause the escrow shares to be listed promptly with the New York Stock Exchange; and

indemnify, to the extent permitted by law, each person selling or distributing securities under this registration statement, and related parties, against all losses caused by any material misstatement or omission by us in the registration statement or any violation by us of the Securities Act, the Securities Exchange Act of 1934, as amended, which we sometimes refer to as the Exchange Act, any state securities laws or any rules or regulations of the New York Stock Exchange.

**Conditions to the Merger**

The parties' obligations to consummate the merger and related transactions generally are subject to the satisfaction or waiver of the following conditions:

the bankruptcy court approving the order confirming Stations' plan of reorganization and such confirmation order becoming a final bankruptcy court order;

the FCC approving the transactions contemplated by the merger agreement, without any condition or qualification materially adverse to us or our subsidiaries or Stations or its subsidiaries, or materially adverse to our acquisition of control of Stations and its subsidiaries;

all regulatory waiting periods applicable to the merger agreement and the related transactions expiring or terminating;

no order being in effect enjoining, restraining or prohibiting the consummation of the merger and related transactions and no action or proceeding having been instituted by any regulatory authority seeking any such order that would reasonably be expected to have a material adverse effect on us or on Stations; and

the transactions related to the Chelsey purchase agreement being consummated, unless the failure to consummate such transactions is the result of either the wrongful refusal of Chelsey to consummate such transactions or the election by Chelsey not to consummate the transactions because Benedek failed to satisfy certain conditions set forth in the Chelsey purchase agreement. If the transactions contemplated by the Chelsey purchase agreement are not consummated as a result of FCC action or inaction, Stations and we each agree to use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, everything reasonably necessary, proper or advisable under applicable laws to consummate and make effective the transactions contemplated by the merger agreement and the Chelsey purchase agreement at the earliest practicable date.

Our obligations to consummate the merger and related transactions are subject to the satisfaction or waiver of the following additional conditions:

the representations and warranties made by Stations in the merger agreement being, subject to limited exceptions, correct and complete in all material respects at the effective time;

each and all of the agreements and covenants of Stations and each of its subsidiaries under the merger agreement and related agreements being performed and complied with in all material respects prior to the effective time;

our receiving from Stations customary officer certificates and board of directors resolutions relating to the transactions contemplated by the merger agreement;

our receiving a legal opinion of FCC counsel to Stations;

Stations returning to us the letter of credit;

the FCC issuing a final FCC order approving the transfer of control of Benedek's television licenses to us;

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Stations obtaining and delivering to us consents or waivers relating to the transactions contemplated by the merger agreement, as required by its network affiliation agreements; and

no litigation being pending or threatened involving Stations or any its subsidiaries that would have, or reasonably be expected to have, a material adverse effect on Stations or its subsidiaries or their respective businesses or assets.

The obligations of Stations to consummate the merger and related transactions are subject to the satisfaction or waiver of the following additional conditions:

the representations and warranties made by us and Gray MidAmerica Television in the merger agreement being, subject to limited exceptions, correct and complete in all material respects at the effective time;

each of our and Gray MidAmerica Television's agreements and covenants under the merger agreement and related agreements being performed and complied with in all material respects prior to the effective time; and

Stations receiving from us and Gray MidAmerica Television customary officer certificates and board of directors resolutions relating to the transactions contemplated by the merger agreement.

### **Representations and Warranties**

In the merger agreement, Stations makes customary representations and warranties about itself and its business, including representations and warranties about:

organization, good standing and corporate power;

authorization and enforceability of the merger agreement;

capitalization and subsidiaries;

financial statements and tax matters; and

absence of undisclosed liabilities or material adverse changes.

In addition, Stations makes numerous representations and warranties with respect to its assets, real property, intellectual property, computer software and databases, accounts receivable, insurance, bonds, letters of credit and guarantees, compliance with law, environmental matters, litigation and claims, benefit plans, contracts, labor matters, brokers and finders, interested transactions, officers, directors and bank accounts and the absence of any material misstatement or omission by it in the merger agreement.

We and Gray MidAmerica Television, jointly and severally, also make customary representations and warranties in the merger agreement about ourselves and our business, including representations and warranties regarding organization, good standing and corporate power, authorization and enforceability of the merger agreement, brokers and finders, litigation, and the absence of any material misstatement or omission by us and Gray MidAmerica Television. We also make representations with respect to our qualification under the Communications Act to enter into and consummate the transactions contemplated by the merger agreement, our filings with the SEC and our issuance of the escrow shares.

### **Mutual Covenants of Gray and Stations**

Subject to limited exceptions and except for the sale of the excluded stations by Benedek to Chelsey, from June 4, 2002 until the closing of the merger or the termination of the merger agreement, Stations and we will, and will cause each of our respective subsidiaries, to:

operate our respective businesses only in the usual, regular, and ordinary course;

use commercially reasonable efforts to preserve intact our respective business organizations and assets and maintain our respective rights and franchises; and



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take no action that would materially adversely affect the ability of any party to (1) obtain any consents required for the transactions contemplated in the merger agreement, or (2) perform its covenants and agreements under the merger agreement in all material respects and to consummate the merger and to satisfy the conditions to closing set forth in the merger agreement. However, the covenant described in clause (2) above will not prohibit us or any of our subsidiaries from discontinuing or disposing of any of our assets or businesses, or, provided that we do not materially adversely affect our ability to obtain an FCC order approving the transactions contemplated by the merger agreement, from acquiring or agreeing to acquire any other person or their assets if such action is, in our judgment, desirable in the conduct of our business or our subsidiaries' business.

*Additional Covenants.* The merger agreement also contains other covenants made by us and Stations, including a covenant to file all necessary FCC applications for approval of the transactions contemplated by the merger agreement and a covenant to use reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate the merger as promptly as practicable but not before October 1, 2002.

**Covenants of Stations**

The merger agreement contains numerous covenants of Stations that are customary for this type of transaction. Among other things, subject to limited exceptions, Stations and its subsidiaries will not do or agree to do any of the following without our prior written consent, which we will not withhold unreasonably:

amend the organizational documents of Stations or of any of its subsidiaries;

incur, guarantee or otherwise become responsible for any new debt obligation or other obligation for borrowed money (other than indebtedness of Stations or any of its subsidiaries to Stations or any of its subsidiaries) or enter into or extend any capital leases, in excess of an aggregate of \$500,000 for Stations and its subsidiaries on a consolidated basis;

acquire, sell or encumber any securities or assets of Stations or any of its subsidiaries, or declare or pay any dividend or make any other distribution in respect of any such securities;

increase the compensation or benefits of the employees or officers of Stations or any of its subsidiaries;

voluntarily accelerate the vesting of any stock options or other stock-based compensation or employee benefits;

adopt any new employee benefit plan or program of Stations or any of its subsidiaries or make any material change in or to any existing employee benefit plans or programs of Stations or any of its subsidiaries;

make any significant change in any accounting methods, principles, or practices or systems of internal accounting controls, except as may be necessary to conform to changes in regulatory accounting requirements or generally accepted accounting principles;

settle any material litigation other than in accordance with past practice or to the extent it is covered by insurance;

except in the ordinary course of business consistent with past practices, enter into or terminate any material contract or make any material change in any contract;

fail to promptly notify us of any inquiry, investigation, or proceeding related to any of Stations' television stations that is initiated by the FCC; and

request the bankruptcy court to take any action or to grant any approval to any action or matter that is in any way inconsistent with the merger agreement.

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### **Indemnification**

For a period of six years after the effective time of the merger, we will indemnify the pre-merger directors, officers, employees and agents of Stations and its subsidiaries against all liabilities arising out of acts or omissions occurring at or prior to the effective time arising out of their service as directors, officers, employees or agents of Stations, any of its subsidiaries or, at Stations or any of its subsidiaries request, another entity, to the fullest extent permitted under Delaware law, by Stations or its subsidiaries certificates of incorporation and bylaws and by any applicable indemnification agreements.

### **Termination of the Merger Agreement**

The merger agreement generally may be terminated at any time prior to the effective time by the mutual consent of Gray and Stations or by us or Stations:

if the terminating party is not then in material breach of any of its representations or warranties or any of its covenants contained in the merger agreement, in the event of the inaccuracy of any representation or warranty of the non-terminating party contained in the merger agreement which would reasonably be expected to have or result in a material adverse effect on the non-terminating party and cannot be or has not been cured within 30 days after written notice of such inaccuracy is given to the non-terminating party;

if the terminating party is not then in material breach of any of its representations or warranties or any of its covenants contained in the merger agreement, in the event of a material breach by the non-terminating party of any covenant or agreement contained in the merger agreement that cannot be or has not been cured within 30 days after written notice of such breach is given to the non-terminating party, except that we may not cure any breach of our obligation to pay the merger consideration;

if the merger is not consummated by March 31, 2003, in each case only if the failure to consummate the transactions contemplated by the merger agreement on or before such date is not caused by any material breach of the merger agreement by the terminating party, except that the March 31, 2003 termination date automatically will be extended by one day for each day that the closing does not occur because, subject to certain exceptions, the transactions contemplated by the Chelsey purchase agreement are not consummated; or

if it is reasonably anticipated that any of the conditions precedent to the obligations of the terminating party to consummate the merger, other than the condition that, subject to certain exceptions, the transactions contemplated by the Chelsey purchase agreement are consummated, cannot be satisfied or fulfilled by March 31, 2003 and such failure was not the fault of the terminating party.

### **Effects of Termination**

If the merger agreement is terminated, as described above, it will become void and have no effect. However, certain provisions of the merger agreement will survive termination, including provisions relating to the letter of credit and the escrow shares, confidentiality and expenses. In addition, in the event that the merger agreement is terminated by us or by Stations in connection with any material breach of any representation or warranty or any covenant or other agreement of the other party contained in the merger agreement or because the merger is not consummated prior to the applicable termination date, the breaching party will remain liable for any uncured breach of a representation, warranty, covenant or agreement giving rise to such termination.

If the closing does not occur due to a material default by us, and Stations has not materially defaulted due to a breach of any of its representations or warranties or any of its covenants or agreements under the merger agreement, then Stations may draw on the letter of credit and instruct the escrow agent to deliver to it the escrow shares pursuant to the escrow agreement. The aggregate proceeds of the drawing on the letter of credit and the escrow shares will total \$25.0 million, but we may replace some or all of the



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escrow shares with a cash payment so long as any such cash payment is a whole number multiple of \$500,000.

If the closing does not occur due to the non-fulfillment of any of the conditions precedent to each party's obligation to consummate the merger, and we are not in material default in the performance of any of our representations or warranties or any of our covenants or agreements under the merger agreement, Stations will not be entitled to the letter of credit or the escrow shares and, after termination of the merger agreement, the letter of credit and the escrow shares will be returned to us.

## **Waivers**

Prior to or at the effective time, we and Stations may waive any material default in the performance of any term of the merger agreement by the other party or any of its subsidiaries, waive or extend the time for the compliance or fulfillment by the other party and its subsidiaries of any and all of their obligations under the merger agreement, and waive any or all of the conditions precedent to the obligations of the other party and its subsidiaries under the merger agreement. However, neither we nor Stations may waive any condition which, if not satisfied, would result in the material violation of any law.

## **Fees and Expenses**

Generally, regardless of whether the merger is consummated, Stations will be responsible for all expenses and fees incurred by it and its subsidiaries in connection with the merger and we will be responsible for all expenses and costs incurred by us in connection with the merger. However, we will pay all the fees related to the filings with the FTC. Also, Stations and we will each pay one-half of the processing fees related to the filing with the FCC of applications regarding the transfer of control of Benedek's television licenses to us.

## **Lock Up Agreements**

On June 4, 2002, in connection with the transactions contemplated by the merger agreement, Stations and we entered into the lock up agreements with certain stockholders and creditors of Stations, whom we refer to as the consenting stockholders and creditors. Under these lock up agreements, the consenting stockholders and creditors agreed to, among other things, support and vote their shares in favor of a Stations bankruptcy plan that will give effect to the transactions contemplated by the merger agreement. Stations has received executed lock up agreements from holders of 97.9% of the outstanding senior preferred stock, 98.8% of the outstanding junior preferred stock, 100% of the outstanding class B common stock, and 94.6% of the outstanding aggregate principal amount of the senior subordinated discount notes.

In addition, consenting stockholders that hold Stations senior preferred stock have agreed to pay to us, if Stations receives an offer from a third party to purchase more than 50% of Stations' outstanding senior preferred stock and such offer is approved by the bankruptcy court, a termination fee of \$15.0 million. The liability of each consenting stockholder that holds Stations senior preferred stock is limited to an amount determined by multiplying \$15.0 million by a fraction, the numerator of which is the number of shares of senior preferred stock owned by such consenting stockholder and the denominator of which is the number of shares of Stations senior preferred stock owned by all consenting stockholders.

The United States Trustee in the Stations' bankruptcy proceeding has asserted that the lock up agreements contravene the Bankruptcy Code and cannot be enforced against a party if it chooses not to vote for the Stations' bankruptcy plan. The bankruptcy court has not ruled with respect to the U.S. Trustee's assertions, but Stations believes that the lock up agreements are enforceable under applicable law.

## **Benedek Family Benefits Agreement**

On May 29, 2002, in connection with the transactions contemplated by the merger agreement, we entered into a letter agreement with A. Richard Benedek, Chairman of the Board and Chief Executive

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Officer of Stations, Laura Benedek, Richard Benedek's wife, and Stephen D. Benedek, a Vice President of Stations and Richard Benedek's son, in which we agreed to provide to them, following consummation of the merger, certain health and welfare benefits, use of office space in New York City until no later than August 31, 2005, and severance benefits of up to \$275,000. In addition, we may forgive certain indebtedness owed by Richard Benedek to Stations. Upon the closing of the merger, we will cease the use of the name Benedek Broadcasting, the Benedek.com URL and the name Benedek Interactive Media. The right to use the Benedek Broadcasting name will be conveyed, at no cost, to Richard Benedek and the right to use the Benedek.com URL and the name Benedek Interactive Media will be conveyed, at no cost, to Stephen Benedek.

**K. James Yager Employment Agreement**

On June 4, 2002, Benedek and K. James Yager, Benedek's President and Chief Operating Officer, entered into a second amendment to K. James Yager's employment agreement, which will become effective only upon consummation of the merger. In addition, we entered into a letter agreement with K. James Yager relating to this amendment.

K. James Yager's employment agreement is for a term of four years commencing on January 1, 2001 and ending on December 31, 2004, the expiration date. K. James Yager's base salary is \$630,000 for 2001 and \$680,000 for 2002 and thereafter increases to a per annum rate not less than 105% of his base salary during the preceding year. K. James Yager is eligible to receive a bonus in respect of each fiscal year during the term of the agreement in such amount as Benedek may determine. The agreement also entitles K. James Yager to specified fringe benefits and to participation in employee benefit plans generally available to Benedek's executives. In addition, Benedek has agreed to pay to K. James Yager the amount necessary, on an after-tax basis, to discharge all amounts, including accrued interest, owed by him to Benedek under his \$555,000 promissory note.

If Benedek terminates K. James Yager's employment without cause, or if K. James Yager terminates his employment by reason of a constructive discharge, which includes the assignment to K. James Yager of duties or reporting responsibilities inconsistent in any material respect with his status, title, position or duties or any breach by Benedek of his employment agreement, K. James Yager will be entitled to receive his base salary, and to participate, at no cost to him, in all employee benefits, through the expiration date and his non-competition obligations will be terminated. In our letter agreement with K. James Yager, we agreed that our failure to employ him as President and Chief Operating Officer of our broadcast division or subsidiary within 12 months after the consummation of the merger would constitute a constructive discharge, entitling him to the above benefits.

Our letter agreement with K. James Yager also provides that, after consummation of the merger, we will grant to him nonqualified options to purchase shares of our class B common stock pursuant to the terms of our long term incentive plan. The number of shares subject to the option award will be determined by our board of directors, and the exercise price of the option shares will be the market price of our class B common stock at the time the award is granted. The options will vest ratably over the term of K. James Yager's employment agreement, with vesting to be accelerated in the event of a constructive discharge.

**Bull Run Advisory Fee**

For advisory services rendered by Bull Run in connection with the merger, we advanced to Bull Run an advisory fee of \$5.0 million on June 10, 2002. This advisory fee must be repaid to us if the merger is not completed. See The Merger Interests of Certain Persons in the Merger.

**Table of Contents****INFORMATION REGARDING GRAY****Selected Historical Consolidated Financial Data**

Set forth below is our selected historical consolidated financial data. The financial data for, and as of the end of, each of the years in the five-year period ended December 31, 2001 was derived from the audited consolidated financial statements included in our Annual Reports on Form 10-K and from other information in the Annual Reports. The financial data for, and as of the six month periods ended June 30, 2002 and 2001 was derived from our unaudited accounting records and have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management, include all normal and recurring adjustments and accruals necessary for a fair presentation of such information. More comprehensive financial information is included in the Annual Reports and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002. The financial information that follows is qualified in its entirety by reference to, and should be read in conjunction with, the Annual Reports, the Quarterly Reports and all of the financial statements and related notes contained in the Annual Reports and the Quarterly Reports.

	Year Ended December 31,					Six Months Ended June 30,	
	1997(a)	1998(b)	1999(c)	2000	2001	2001	2002
(Dollars in thousands except per share data)							
<b>Statements of Operations Data:</b>							
Revenues							
Broadcast (less agency commissions)	\$ 72,300	\$ 91,007	\$ 97,015	\$ 120,640	\$ 106,430	\$ 52,575	\$ 55,006
Publishing	24,536	29,330	37,808	41,499	41,189	19,927	21,216
Paging	6,712	8,553	9,130	9,074	8,725	4,405	4,083
Total revenues	103,548	128,890	143,953	171,213	156,344	76,907	80,305
Operating expenses							
Broadcast, publishing and paging	65,771	82,783	93,994	105,314	104,025	50,846	50,149
Corporate and administrative	2,528	3,063	3,448	3,594	3,615	1,829	2,116
Depreciation and amortization	14,519	18,117	24,451	31,207	30,824	15,696	7,433
Total operating expenses	82,818	103,963	121,893	140,115	138,464	68,371	59,698
Operating income	20,730	24,927	22,060	31,098	17,880	8,536	20,607
Gain on disposition of television stations		72,646					
Valuation adjustments of goodwill and other assets		(2,074)					
Appreciation (depreciation) in value of derivative, net					(1,581)	(961)	730
Miscellaneous income (expense), net	(31)	(242)	336	780	194	98	97
Income (loss) before interest expense, income taxes, extraordinary charge and cumulative effect of accounting change	20,699	95,257	22,396	31,878	16,493	7,673	21,434

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Interest expense	<u>21,861</u>	<u>25,454</u>	<u>31,021</u>	<u>39,957</u>	<u>35,783</u>	<u>18,167</u>	<u>16,866</u>
Income (loss) before income taxes, extraordinary charge and cumulative effect of accounting change	(1,162)	69,803	(8,625)	(8,079)	(19,290)	(10,494)	4,568
Income tax expense (benefit)	<u>240</u>	<u>28,144</u>	<u>(2,310)</u>	<u>(1,867)</u>	<u>(5,972)</u>	<u>(3,232)</u>	<u>1,616</u>
Net income (loss) before extraordinary charge and cumulative effect of accounting change	(1,402)	41,659	(6,315)	(6,212)	(13,318)	(7,262)	2,952
Extraordinary charge on extinguishment of debt							<u>(7,318)</u>
Net income (loss) before cumulative effect of accounting change	(1,402)	41,659	(6,315)	(6,212)	(13,318)	(7,262)	(4,366)
Cumulative effect of accounting change, net							<u>(30,592)</u>
Net income (loss)	(1,402)	41,659	(6,315)	(6,212)	(13,318)	(7,262)	(34,958)
Preferred dividends	1,410	1,318	1,010	1,012	616	308	803
Non-cash preferred dividends associated with preferred stock redemption		3,360		2,160			3,969
Net income (loss) available to common stockholders	<u>\$ (2,812)</u>	<u>\$ 36,981</u>	<u>\$ (7,325)</u>	<u>\$ (9,384)</u>	<u>\$ (13,934)</u>	<u>\$ (7,570)</u>	<u>\$(39,730)</u>

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	Year Ended December 31,					Six Months Ended June 30,	
	1997(a)	1998(b)	1999(c)	2000	2001	2001	2002
(Dollars in thousands except per share data)							
Basic earnings per common share(d):							
Net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ (0.24)	\$ 3.10	\$ (0.57)	\$ (0.61)	\$ (0.89)	\$ (0.49)	\$ (0.12)
Extraordinary charge on extinguishment of debt, net							(0.47)
Cumulative effect of accounting change, net							(1.95)
Net income (loss) available to common stockholders	\$ (0.24)	\$ 3.10	\$ (0.57)	\$ (0.61)	\$ (0.89)	\$ (0.49)	\$ (2.54)
Diluted earnings per common share(d):							
Net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ (0.24)	\$ 2.98	\$ (0.57)	\$ (0.61)	\$ (0.89)	\$ (0.49)	\$ (0.12)
Extraordinary charge on extinguishment of debt, net							(0.47)
Cumulative effect of accounting change, net							(1.95)
Net income (loss) available to common stockholders	\$ (0.24)	\$ 2.98	\$ (0.57)	\$ (0.61)	\$ (0.89)	\$ (0.49)	\$ (2.54)
<b>Other Data:</b>							
Media cash flow(e)	\$ 38,061	\$ 46,624	\$ 50,944	\$ 66,247	\$ 53,074	\$ 26,411	\$ 30,520
Media cash flow margin(e)	36.8%	36.2%	35.4%	38.7%	33.9%	34.3%	38.0%
Operating cash flow(f)	\$ 35,533	\$ 43,561	\$ 47,496	\$ 62,653	\$ 49,459	\$ 24,582	\$ 28,404
Operating cash flow margin(f)	34.3%	33.8%	33.0%	36.6%	31.6%	32.0%	35.4%
Cash flows provided by (used in):							
Operating activities	\$ 9,744	\$ 20,074	\$ 20,842	\$ 22,765	\$ 16,823	\$ 8,268	\$ 3,355
Investing activities	(57,498)	(55,299)	(126,780)	(8,276)	(186,165)	(2,679)	154,741
Financing activities	49,071	34,744	105,839	(14,061)	167,685	(6,109)	(143,184)
Capital expenditures	10,372	9,271	11,712	5,702	7,593	2,597	8,133
Cash dividends per common share(g)	0.05	0.06	0.08	0.08	0.08	0.04	0.04
	6.4x	6.2x	8.0x	6.0x	8.0x(h)	6.2x(i)	7.1x(i)

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Ratio of total debt to operating cash flow							
Ratio of operating cash flow to interest expense	1.6	1.7	1.5	1.6	1.4	1.5(i)	1.6(i)
<b>Balance Sheet Data (at end of period):</b>							
Cash and cash equivalents	\$ 2,367	\$ 1,887	\$ 1,787	\$ 2,215	\$ 169,115(h)	\$ 1,695	\$ 15,470
Total intangible assets, net	263,425	376,015	526,434	511,616	497,311	504,458	457,633
Total assets	345,051	468,974	658,157	636,772	794,337(h)	616,870	595,911
Long-term debt (including current portion)	227,076	270,655	381,702	374,887	551,444(h)	368,557	378,878
Preferred stock	11,111	7,371	7,371	4,637	4,637	4,637	39,233
Total stockholders equity	92,295	126,703	168,188	155,961	142,196	148,765	98,288

- (a) Reflects the operating results of our acquisition of substantially all of the assets of WITN-TV and our acquisition of all of the outstanding common stock of GulfLink Communications, Inc. as of their respective acquisition dates, August 1, 1997 and April 24, 1997.
- (b) Reflects the operating results of our acquisition of all of the outstanding capital stock of Busse Broadcasting Corporation and our related acquisition of the assets of WEAU-TV in exchange for the assets of WALB-TV as of July 31, 1998, the closing date of the respective transactions. See Note B to our audited consolidated financial statements incorporated by reference in this proxy statement.
- (c) Reflects the operating results of our acquisition of all of the outstanding capital stock of KWTX Broadcasting Company and Brazos Broadcasting Company, as well as the assets of KXII Broadcasters Ltd., completed on October 1, 1999, and our acquisition of substantially all of the assets of The Goshen News from News Printing Company, Inc. and its affiliates, completed on March 1, 1999, as of their respective acquisition dates. See Note B to our audited consolidated financial statements incorporated by reference in this proxy statement.
- (d) On August 20, 1998, our board of directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of our 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.

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- (e) Media cash flow is defined as operating income, plus depreciation and amortization (including amortization of program broadcast rights), non-cash compensation and corporate overhead, less payments for program broadcast obligations. Media cash flow margin is defined as media cash flow divided by revenues.
- (f) Operating cash flow is defined as media cash flow less corporate overhead. Operating cash flow margin is defined as operating cash flow divided by revenues.

We have included media cash flow, operating cash flow and certain related calculations because such data is commonly used as a measure of performance for media companies and is also used by investors to measure a company's ability to service debt. Media cash flow, operating cash flow and certain related calculations are not, and should not, be used as an indicator or alternative to operating income, net income or cash flow as reflected in our consolidated financial statements. Media cash flow, operating cash flow and certain related calculations are not measures 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.

- (g) Cash dividends were \$0.08 per common share for all five annual periods and \$0.04 per common share for the six month periods; however, the amounts for 1997 and 1998 have been adjusted for the three-for-two stock split in 1998, which is discussed in Note (d) above.
- (h) On December 21, 2001, we deposited \$168.6 million with the trustee of our 10 5/8% Senior Subordinated Notes due 2006 to redeem those notes, including payment of principal, the applicable premium costs and accrued interest through the redemption date of January 22, 2002. Total assets include the \$168.6 million reflected as restricted cash for redemption of long-term debt and long-term debt (including current portion) includes the related \$155.2 million of our 10 5/8% notes that were extinguished on January 22, 2002. The ratio of total debt to operating cash flow of 8.0x is calculated on a pro forma basis, which excludes the \$155.2 million of our 10 5/8% notes. If the \$155.2 million of our 10 5/8% notes were included in the total debt amount used to calculate the ratio of total debt to operating cash flow, the ratio would be 11.1x.
- (i) Represents ratios for the 12 months ended June 30, 2001 and 2002.
- (j) The following table presents the transitional disclosures regarding the adoption of SFAS No. 142:

	Year Ended December 31,					Six Months Ended June 30,	
	1997(a)	1998(b)	1999(c)	2000	2001	2001	2002
	(Dollars in thousands except per share data)						
Reported net income (loss) before extraordinary charge and cumulative effect of accounting	\$ (1,402)	\$ 41,659	\$ (6,315)	\$ (6,212)	\$ (13,318)	\$ (7,262)	\$ 2,952
Add back: amortization of goodwill and intangible assets with indefinite lives, net of tax	4,175	5,697	8,499	11,022	11,033	5,516	
Adjusted net income (loss) before extraordinary charge and cumulative effect of accounting change	\$ 2,773	\$ 47,356	\$ 2,184	\$ 4,810	\$ (2,285)	\$ (1,746)	\$ 2,952
Basic earnings per common share(d):							
Reported net income (loss) before extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ (0.24)	\$ 3.10	\$ (0.57)	\$ (0.61)	\$ (0.89)	\$ (0.49)	\$ (0.12)
Add back: amortization of goodwill and intangible assets with indefinite lives, net or tax	0.35	0.48	0.66	0.71	0.71	0.36	

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Adjusted net income (loss) before  
extraordinary charge and cumulative  
effect of accounting change available to  
common stockholders

\$ 0.11	\$ 3.58	\$ 0.09	\$ 0.10	\$ (0.18)	\$ (0.13)	\$ (0.12)
<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Diluted earnings per common share(d):  
Adjusted net income (loss) before  
extraordinary charge and cumulative  
effect of accounting change available to  
common stockholders

\$ 0.11	\$ 3.44	\$ 0.09	\$ 0.10	\$ (0.18)	\$ (0.13)	\$ (0.12)
<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



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### **Additional Information**

Gray was incorporated under the laws of the State of Georgia in 1891. The principal executive offices of Gray are located at 4370 Peachtree Road, Atlanta, Georgia, 30139. The telephone number of the executive offices is (404) 504-9828.

Certain information relating to our business, including financial statements, management's discussion and analysis of financial condition and results of operations, quantitative and qualitative disclosure about market risks and other related matters, as set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2002, and June 30, 2002, is incorporated herein by reference. If you would like a copy of such documents you may contact us at our address and telephone number indicated under [Where You Can Find Additional Information](#).

### **Operating & Growth Strategy**

We attribute our success to date and our current opportunities to increase our revenue, media cash flow and audience share to the successful implementation of our core operating strategies, the principal components of which are to:

***Focus on Local News and Programming to Maintain a Strong Local Franchise.*** We currently operate 13 network affiliated television stations serving 11 markets, with 12 of our 13 stations ranked first or second in local news. After completion of the merger with Stations, we will operate 28 network affiliated stations serving 24 markets, with 24 of our 28 stations ranked first or second in local news. We endeavor to make each of our television stations a highly recognizable, local brand through the depth, quality and focus of its local news, programming and community involvement. We believe that providing the leading source for local news and programming in our markets enables us to strengthen audience loyalty and increase viewership among attractive demographic audiences. As a result, we believe that the strength of our local franchises enables us to maximize advertising revenues from local, regional and national accounts. We believe that our commitment to local news, programming and community involvement is essential to our ability to serve each of the communities in which we operate and provides us with a strong competitive advantage.

***Continue to Develop Innovative Local Sales and Targeted Marketing Initiatives.*** We employ an experienced, high-quality local sales force at each station to increase advertising revenue by leveraging our local brand. In 2001, approximately 59% of our net television advertising revenue was generated from our local advertisers and pro forma for the proposed merger with Stations, approximately 60% of our net television advertising revenue would have been generated from our local advertisers. Additionally, our net revenue from local television advertisers represented approximately 67% of the combined total of our local and national net advertising revenues and, pro forma for the proposed merger with Stations, approximately 68% of the combined total of our local and national net advertising would have been generated from local television advertisers. Our goal is to develop customized advertising campaigns for our customers, which directly target their desired audience and address their long-term advertising objectives. We believe that a focused, tailored advertising solution is very attractive to local advertisers, who have historically been a more stable source of revenue than national advertisers. In addition to focusing on expanding our relationships with existing advertisers, we seek to identify and create new relationships with local, regional and national customers in our markets. Each station's sales personnel are trained to understand local advertisers' needs and are required to meet performance standards with respect to client activity, including new customer identification.

***Capitalize on Leading Network Brands in Markets with Limited Competition.*** Currently, ten of our stations are affiliated with CBS and three are affiliated with NBC, representing approximately 81% and 19% of our television revenue in 2001, respectively. Following the completion of the merger, we will have a broad and diverse portfolio of 28 affiliated television stations located in 24 markets, of which 15 are affiliated with CBS, seven are affiliated with NBC and six are affiliated with ABC, representing approximately 56%, 29% and 15% of our total pro forma net television revenue in 2001, respectively. Additionally, we will be the largest independent owner of CBS affiliated stations. Our network affiliations provide our television stations with top-rated programming, which complements and enhances our leading local brand. We believe our markets are less competitive than larger DMAs. Of our 24 markets, 16 markets are served by four TV stations or fewer, and

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seven markets are served by three of fewer television stations. Our markets also typically have fewer radio stations than larger DMAs.

***Pursue Strategic Acquisitions to Expand and Enhance Our Regional Clusters.*** We have acquired and integrated successfully 12 of our 13 television stations since 1993, and have signed a definitive agreement to acquire an additional 15 television stations from Stations. After giving effect to the proposed merger, our television stations will be located in several distinct regions throughout the United States, with significant presence in the Southeast, Midwest, Texas and Great Lakes region, diminishing potential adverse effects on our business caused by specific regional economic fluctuations. We believe that we are well positioned to participate in further consolidation of our industry, including opportunities that may arise as a result of future regulatory changes. For example, a number of the FCC's most restrictive ownership regulations, including newspaper-television cross ownership and television duopoly rules, are currently under review and could be relaxed in the future, providing us with further attractive growth opportunities. In pursuing future acquisitions, we intend to focus on network affiliated television stations in medium-sized markets that offer superior growth. Specifically, we pursue television stations proximate to our existing clusters, as evidenced by the proposed merger with Stations in which five of the 15 television stations we intend to acquire are adjacent to markets in which we currently own and operate television stations. Additionally, we focus on acquiring television stations where we can successfully implement our operating strategies to establish leading local news, increase revenue and audience share, develop relevant regional content and reduce costs.

***Attract and Retain High-Quality Management.*** We believe that high-quality management at both the corporate and station level is critical to the successful implementation of our strategy. We use equity incentives to attract and retain station general managers with proven track records. Members of our senior management team have extensive experience in operating, managing and acquiring television stations, and include: J. Mack Robinson, President and Chief Executive Officer; Robert Prather, Executive Vice President - Acquisitions; James Ryan, Vice President and Chief Financial Officer; and after the proposed merger, K. James Yager, currently the President of Benedek. Additionally, our station managers have an average of over 21 years of industry experience with individual industry experience ranging from 11 to 32 years.

***Maintain Strict Financial Planning and Cost Controls.*** We employ a comprehensive ongoing strategic planning and budgeting process that enables us to continually identify and implement cost savings at each station, and is designed to increase our media cash flow. Owning and operating 28 television stations will enable us to achieve economies of scale and reduce expenses for syndicated programming, capital equipment and vendor services. Furthermore, we believe that the synergies generated through geographic clustering, further enhanced by the Stations acquisition and the realization of technological and automation efficiencies, will enable us to achieve additional cost savings in the near future.

***Increase Advertising Revenue and Circulation at Our Newspaper Publishing Operations.*** We seek to increase advertising revenues and circulation at each of our four newspapers by creating a highly recognizable local brand by focusing on the depth and quality of our coverage of local news, sports and lifestyles and through community involvement. We are able to differentiate our publications from larger competitors and build reader loyalty by becoming the primary source for local news and advertising information within each of our target markets. We also sponsor community events with the objective of strengthening our community relationships. We employ an experienced local sales force to increase advertising revenue by leveraging our local brand. Through our ongoing strategic planning and budgeting process, we continually identify and implement cost savings at each newspaper to increase our media cash flow. In 2001, publishing represented approximately 16% of our total pro forma net revenue. Our newspaper strategy is led by senior managers and publishers who have an average of over 32 years of experience in the newspaper business with individual experience ranging from 20 to 40 years. Our publishing operations are led by Thomas J. Stultz, Vice President and President - Publishing.

**Table of Contents****SELECTED MARKET AND STATION INFORMATION REGARDING GRAY AND BENEDEK****Gray Television Stations Pro Forma Following the Merger**

The following is a list of all our stations pro forma following the merger. In markets where we have satellite stations and stations that serve distant communities, the figures have been combined.

DMA Rank(a)	Market	Station	Analog Channel	Network Affiliation		FCC License	Station Rank in DMA(b)	Station Rank in DMA(c)	Commercial Stations in DMA(d)	In Market Share of Household Viewing(b)	Television Households(a)
				Network	Expiration	Date					
*62 65	Knoxville, TN Wichita- Hutchinson, KS (Colby, KS) (Garden City, KS)	WVLT KAKE KLBY(e)	8 10 4	CBS ABC ABC	12/31/04 1/1/06 1/1/06	8/1/05 6/1/06 6/1/06	2(tied) 3	3 3	5 4	22% 21%	478 453
*66	Lexington, KY	WKYT	27	CBS	12/31/04	8/1/05	1	1	5	35%	436
*Note(f) 75	Hazard, KY	WYMT	57	CBS	12/31/04	8/1/05	1	1		39%	169
85	Omaha, NE	WOWT	6	NBC	1/1/12	6/1/06	1	1	5	36%	386
91	Madison, WI	WMTV	15	NBC	1/1/12	12/1/05	2	2	4	30%	339
*94	Colorado Springs, CO	KKTV	10	CBS	6/30/05	4/1/06	1	1	5	33%	306
* *102	Waco-Temple- Bryan, TX (Bryan, TX)	KWTX KBTX(g)	10 3	CBS CBS	12/31/05 12/31/05	8/1/06 8/1/06	1 1	1 1	6	42%	299
* *106	Lincoln- Hastings- Kearney, NE (Grand Island, NE)	KOLN	10	CBS	12/31/05	6/1/06	1	1	5	54%	269
111 *113	Greenville- New Bern- Washington, NC	WITN	7	NBC	12/31/11	12/1/04	2	2	4	30%	251
*114 *127	Lansing, MI	WILX	10	NBC	1/1/12	10/1/05	1	1	4	39%	238
132 137	Tallahassee, FL- Thomasville, GA	WCTV	6	CBS	12/31/04	4/1/05	1	1	5	57%	237
138 *159	Augusta, GA	WRDW	12	CBS	3/31/05	4/1/05	1	1	4	35%	234
*160	La Crosse- Eau Claire, WI	WEAU	13	NBC	12/31/11	12/1/05	1	1	4	39%	198
172 178	Rockford, IL	WIFR	23	CBS	6/30/05	12/1/05	2	1	4	32%	176
	Wausau- Rhineland, WI	WSAW	7	CBS	6/30/05	12/1/05	1	2	4	42%	169
	Topeka, KS	WIBW	13	CBS	6/30/05	6/1/06	1	1	4	49%	166
	Panama City, FL	WJHG	7	NBC	12/31/11	2/1/05	1	1	3	50%	121
	Sherman, TX-Ada, OK	KXII	12	CBS	12/31/05	8/1/06	1	1	2	74%	119
	Dothan, AL	WTVY	4	CBS	6/30/05	4/1/05	1	1	3	69%	95
		WHSV	3	ABC	11/1/04	10/1/04	1	1	1	97%	84

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181	Harrisonburg, VA Bowling Green, KY	WBKO	13	ABC	11/1/04	8/1/05	1	1	2	83%	81
185	Meridian, MS	WTOK	11	ABC	11/1/04	6/1/05	1	1	3	66%	70
186	Parkersburg, WV	WTAP	15	NBC	1/1/12	10/1/05	1	1	1	96%	63
											5,437

(Approximately 5% of all  
US television households)

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\* Denotes a television station currently owned by Gray.

- (a) Based on data published by Nielsen.
- (b) Based on Nielsen data for the May 2002 rating period, Sunday to Saturday, 6 am - 2 am.
- (c) Based on our review of the Nielsen data for the May 2002 rating period during various news hours.
- (d) Based on stations that BIA has reported at one share or more in three of the four most recent rating periods.
- (e) KLBY and KUPK are satellite stations of KAKE under FCC rules.
- (f) Special 16 county trading area defined by Nielsen and is part of the Lexington, KY DMA.
- (g) KBTX is a satellite station of KWTX under FCC rules.
- (h) KGIN is a satellite station of KOLN under FCC rules.

**Table of Contents****Our Markets**

Below is a brief description of the market for each of our stations. All statements as to station ranking in this proxy statement are based on Nielsen data for the 6:00 a.m. to 2:00 a.m. Sunday through Saturday time period, except that data in the tables titled *Competitive Landscape* is based on BIA data for the 9:00 a.m. to midnight Sunday through Saturday time period. The news ranking information is based on our management's review of the Nielsen Station Index, Viewers in Profile, dated May 2002. As NBC affiliate stations broadcasted the Olympic Games during February 2002, their ratings for this period reflect a higher-than-normal viewership. CAGR refers to compound annual growth rate and EBI refers to effective buying income. EBI statistics reflect data for 2000 and 2005. In the *Competitive Landscape* tables below, we have included only stations that BIA has reported at one share or more in three of the four most recent ratings periods.

**Knoxville, Tennessee**

WVLT, a CBS affiliate, was acquired by us in September 1996 and began operations in 1988. It is the second ranked station, with the third ranked news program, in the Knoxville, Tennessee market. The Knoxville area is a center for education, manufacturing, healthcare and tourism. The University of Tennessee's main campus with approximately 26,000 students is located within the city of Knoxville. Leading manufacturing employers in the area include: Lockheed Martin Energy Systems, Inc., DeRoyal Industries, Aluminum Company of North America, Phillips Consumer Electronics North America Corp., Clayton Homes and Sea Ray Boats, Inc.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	1,208	1,277	1.12%
Retail Sales	\$ 17,255	\$ 22,109	5.08
EBI	19,317	25,203	5.46
Gross Market Revenue	68,700	77,600	2.47
Average Household Income	40.3	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WBIR-TV	NBC	VHF	Gannett Company, Inc.	18	23	19	17
<b>WVLT-TV</b>	<b>CBS</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>12</b>	<b>10</b>	<b>14</b>	<b>11</b>
WATE-TV	ABC	VHF	Young Broadcasting Inc.	11	8	10	11
WTNZ	FOX	UHF	Raycom Media, Inc.	3	4	4	2
WBXX-TV	WB	UHF	Acme Communications, Inc.	3	3	3	3

**Lexington and Hazard, Kentucky**

WKYT, a CBS affiliate, was acquired by us in September 1994 and began operations in 1957. It is ranked first in total viewers and in news programming in the Lexington, Kentucky market. The Lexington area is a regional hub for shopping, business, healthcare, education, and cultural activities. Major employers in the Lexington area include Toyota Motor Corp., Lexmark International, Inc., ALLTEL Corporation, Square D Company, Ashland, Inc., the University of Kentucky and International Business Machines Corporation. Eight hospitals are located in Lexington, reinforcing Lexington's position as a regional medical center. The University of Kentucky's main campus with approximately 25,000 students is located in Lexington. Frankfort, the capital of Kentucky is located within WKYT's service area. WYMT,

**Table of Contents**

WKYT's sister station is located in the Lexington DMA. In addition, the Lexington market is adjacent to the Bowling Green, Kentucky market where we intend to acquire WBKO in the merger.

WYMT, a CBS affiliate, was acquired by us in September 1994 and began operations in 1985. It is ranked first in total viewers and in news programming in the Hazard, Kentucky market, a special 16 county trading area defined by Nielsen. The mountain region of eastern and southeastern Kentucky where Hazard is located is on the outer edges of four separate markets: Bristol-Kingsport-Johnson City, Charleston-Huntington, Knoxville and Lexington. Prior to the start of WYMT's operations in 1985, mountain residents relied primarily on satellite dishes and cable television carrying distant signals for their television entertainment and news. WYMT is the only commercial television station in this 16-county trading area and we generally consider it to be a distinct television market even though WYMT is technically included in the Lexington market. WYMT is the sister station of WKYT and shares many resources and simulcasts some local programming with WKYT. The trading area's economy is primarily centered around coal and related industries, such as natural gas and oil.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	1,153	1,210	0.97%
Retail Sales	\$ 13,381	\$ 15,738	3.30
EBI	17,241	22,236	5.22
Gross Market Revenue	55,300	67,600	4.10
Average Household Income	39.2	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WKYT-TV	CBS	UHF	Gray Communications Systems, Inc.	16	17	16	15
WLEX-TV	NBC	UHF	Evening Post Publishing Company	12	15	10	9
WTVQ-TV	ABC	UHF	Media General Broadcast Group	8	7	8	9
WDKY-TV	FOX	UHF	Sinclair Broadcast Group, Inc.	4	5	5	4
WYMT-TV	CBS	UHF	Gray Communications Systems, Inc.	2	2	3	2

**Waco-Temple-Bryan, Texas**

KWTX and KBTX, both CBS affiliates, were acquired by us in October 1999 and began operations in 1955 and 1957, respectively. They collectively are ranked first in total viewers and in news programming in the Waco-Temple-Bryan, Texas market. KBTX is a satellite station under FCC rules and is used to enhance our ability to effectively serve the entire market. Waco, Temple, Killeen, Bryan and College Station are the primary economic centers of the region. College Station, Texas is the home of Texas A&M University with approximately 45,000 students and Baylor University is located in Waco, Texas with approximately 13,000 students. The Waco-Temple-Bryan economy centers on education, medical services and U.S. military installations. Leading employers in the area include: Texas A&M University, Raytheon, Baylor University, St. Joseph's Regional Medical Center, Killeen ISD, Scott and White Hospital and the U.S. Army base at Fort Hood, Texas.

**Table of Contents****Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	843	869	0.61%
Retail Sales	\$ 9,433	\$ 11,698	4.40
EBI	11,824	14,508	4.18
Gross Market Revenue	29,500	36,400	4.29
Average Household Income	39.2	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>KWTX-TV &amp; KBTX-TV</b>	<b>CBS</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>19</b>	<b>18</b>	<b>19</b>	<b>17</b>
KCEN-TV	NBC	VHF	Channel 6, Inc.	12	17	11	9
KWKT & KYLE	FOX	UHF	Communications Corp of America	7	7	8	6
KXXV & KRHD-LP	ABC, WB	UHF	Drewry Communications Group	7	6	9	7
KAKW	UNI	UHF	Univision Communications, Inc.		2	3	3

**Lincoln-Hastings-Kearney, Nebraska**

KOLN and KGIN, both CBS affiliates, were acquired by us in July 1998 and began operations in 1953 and 1961, respectively. They are ranked first in total viewers and in news programming in the Lincoln-Hastings-Kearney, Nebraska market. KGIN is a satellite station under FCC rules and is used to enhance our ability to serve the entire market effectively. The city of Lincoln is the primary economic center of the region, the capital of Nebraska and home to the University of Nebraska with approximately 23,000 students. The Lincoln-Hastings-Kearney economy centers around state government, education, medical services and agriculture. Leading employers in the area include: the State of Nebraska, the University of Nebraska, Gallup Inc., the Lincoln Public School System and several area hospitals. The Lincoln market is adjacent to the Omaha, Nebraska market where we intend to acquire WOWT in the merger.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	684	696	0.35%
Retail Sales	\$ 7,766	\$ 8,680	2.25
EBI	12,081	15,140	4.62
Gross Market Revenue	21,200	25,900	4.09
Average Household Income	44.6	NA	

**Table of Contents****Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>KOLN &amp; KGIN</b>	<b>CBS</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>19</b>	<b>18</b>	<b>18</b>	<b>20</b>
KHGI-TV	ABC	VHF	Pappas Telecasting Companies	6	6	9	7
KLKN & KLKE	ABC	VHF	Citadel Communications Company, Ltd.	4	4	6	4
KHAS-TV	NBC	VHF	Greater Nebraska Television, Inc.	4	6	4	3
KTVG	FOX	UHF	Hill Broadcasting Company, Inc.	2	3	3	2

**Greenville-New Bern-Washington, North Carolina**

WITN, an NBC affiliate, was acquired by us in August 1997 and began operations in 1955. Based on the February and May 2002 ratings, WITN is currently tied for the first position in total viewers and in news programming in the Greenville-New Bern-Washington, North Carolina market. Greenville, North Carolina is the primary economic center of the region and home to East Carolina University with approximately 19,000 students. The Greenville-New Bern-Washington economy centers around education, manufacturing and agriculture. Leading employers in the area include: Pitt County Memorial Hospital, NADEP (Naval Rework Facility), East Carolina University, Catalytica Pharmaceuticals, Inc., PCS Phosphate, Rubber Maid Cleaning Products, Inc. and Weyerhaeuser Co.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	705	731	0.73%
Retail Sales	\$ 7,271	\$ 8,116	2.22
EBI	10,060	12,647	4.68
Gross Market Revenue	29,200	36,400	4.51
Average Household Income	40.0	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WNCT-TV	CBS	VHF	Media General Broadcast Group	20	17	17	18
<b>WITN-TV</b>	<b>NBC</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>14</b>	<b>18</b>	<b>14</b>	<b>12</b>
WCTI	ABC	VHF	Lamco Communications Incorporated	9	9	10	9
WFXI & WYDO	FOX	VHF	GOCOM Holdings LLC	5	5	6	4

**Tallahassee, Florida Thomasville, Georgia**

WCTV, a CBS affiliate, was acquired by us in September 1996 and began operations in 1955. It is ranked first in total viewers and in news programming in the Tallahassee, Florida Thomasville, Georgia market. The Tallahassee-Thomasville economy centers around state and local government as well as state and local universities which include Florida State University with approximately 33,000 students, Florida A&M University with approximately 12,000 students, Tallahassee Community College, Thomas College and Valdosta State University. Florida State University and Florida A&M University each have their main campus located within the city of Tallahassee.





**Table of Contents****Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	649	678	0.88%
Retail Sales	\$ 7,217	\$ 8,880	4.23
EBI	9,439	11,780	4.53
Gross Market Revenue	23,900	30,500	5.00
Average Household Income	39.4	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>WCTV</b>	<b>CBS</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>23</b>	<b>20</b>	<b>24</b>	<b>22</b>
WTWC-TV	NBC	UHF	Sinclair Broadcast Group, Inc.	6	8	5	5
WTXL-TV	ABC	UHF	Media Venture Management, Inc.	5	5	7	5
WTLH	FOX	UHF	Pegasus Communications Corporation	4	5	6	3

**Augusta, Georgia**

WRDW, a CBS affiliate, was acquired by us in January 1997 and began operations in 1954. It is ranked first in total viewers and in news programming in the Augusta, Georgia market. The Augusta, Georgia area is one of Georgia's major metropolitan/ regional centers, with a particular emphasis on health services, manufacturing and the military. The federal government employs military and civilian personnel at the Department of Energy's Savannah River Site, a nuclear processing plant, and Fort Gordon, a U.S. Army military installation. Augusta has eight large hospitals, which collectively employ approximately 20,000 and reinforce Augusta's status as a regional healthcare center. Augusta is also home to the Masters Golf Tournament, which has been broadcast by CBS for 46 years.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	644	661	0.52%
Retail Sales	\$ 6,736	\$ 7,902	3.24
EBI	8,668	10,153	3.21
Gross Market Revenue	30,000	36,200	3.83
Average Household Income	36.8	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>WRDW-TV</b>	<b>CBS</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>18</b>	<b>17</b>	<b>18</b>	<b>16</b>
WJBF	ABC	VHF	Media General Broadcast Group	14	13	15	16
WAGT	NBC	UHF	Schurz Communications, Inc.	11	13	9	6

WFXG

FOX

UHF

Fisher Broadcasting Company

8

7

9

8

**Table of Contents****La Crosse-Eau Claire, Wisconsin**

WEAU, an NBC affiliate, was acquired by us in July 1998 and began operations in 1953. It is the first ranked station in total viewers and in news programming in the La Crosse-Eau Claire, Wisconsin market. The La Crosse and Eau Claire economy centers around medical services, agriculture, education and retail business. The University of Wisconsin maintains an 11,000-student campus in Eau Claire. Leading employers include Menard, Inc., the University of Wisconsin at Eau Claire and several area hospitals. The La Crosse-Eau Claire market is adjacent to both the Madison, Wisconsin market where we intend to acquire WMTV in the merger and the Wausau-Rhineland, Wisconsin market where we intend to acquire WSAW in the merger.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	530	541	0.41%
Retail Sales	\$ 7,160	\$ 8,793	4.19
EBI	7,779	9,415	3.89
Gross Market Revenue	22,800	30,200	5.78
Average Household Income	39.1	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WEAU-TV	NBC	VHF	Gray Communications Systems, Inc.	18	24	16	17
WKBT	CBS	VHF	Morgan Murphy Stations	15	12	14	13
WXOW-TV & WQOW-TV	ABC	UHF	Quincy Newspapers, Inc.	10	10	12	12
WLAX & WEUX	FOX	UHF	Grant Media, Inc.	6	9	11	5

**Panama City, Florida**

WJHG, an NBC affiliate, was acquired by us in 1960 and began operations in 1953. It is the first ranked station in total viewers and in news programming in the Panama City, Florida market. It has a secondary affiliation agreement with United Paramount Network, UPN. The Panama City economy centers around tourism, military bases, manufacturing, education and financial services. Panama City is the county seat and principal city of Bay County. Leading employers in the area include: Tyndall Air Force Base, the U.S. Navy Coastal Systems Station, Sallie Mae Servicing Corp., Stone Container Corporation, Arizona Chemical Corporation and Gulf Coast Community College. The Panama City market is adjacent to the Dothan, Alabama market where we intend to acquire WTVY, a CBS affiliate, in the merger.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	324	346	1.32%
Retail Sales	\$ 3,508	\$ 4,265	3.99
EBI	4,525	5,792	5.06
Gross Market Revenue	12,300	14,900	3.91
Average Household Income	37.4	NA	



Table of Contents**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>WJHG-TV</b>	<b>NBC, UPN</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>17</b>	<b>22</b>	<b>18</b>	<b>14</b>
WMBB	ABC	VHF	Media General Broadcast Group	12	10	14	12
WPGX	FOX	UHF	Waitt Broadcasting, Inc.	4	4	5	4

**Sherman, Texas-Ada, Oklahoma**

KXII, a CBS affiliate, was acquired by us in October 1999 and began operations in 1956. It is ranked first in total viewers and in news programming in the Sherman, Texas-Ada, Oklahoma market. The Sherman, Texas-Ada, Oklahoma economy centers around medical services, manufacturing and distribution services. Leading employers include Michelin, MEMC Southwest, Globitech, Raytheon, CIGNA, Johnson & Johnson and Texas Instruments.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	310	322	0.76%
Retail Sales	\$3,815	\$4,806	4.73
EBI	4,265	5,383	4.77
Gross Market Revenue	7,700	9,200	3.62
Average Household Income	35.4	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>KXII</b>	<b>CBS</b>	<b>VHF</b>	<b>Gray Communications Systems, Inc.</b>	<b>20</b>	<b>17</b>	<b>17</b>	<b>17</b>
KTEN	NBC	VHF	Lockwood Broadcasting, Inc.	7	8	8	5

**Table of Contents****Stations Markets**

Below is a brief description of the market for each of the stations that we intend to acquire in the merger. All statements as to station ranking in this proxy statement are based on Nielsen data for the 6:00 a.m. to 2:00 a.m. Sunday through Saturday time period, except that data in the tables titled *Competitive Landscape* is based on BIA data for the 9:00 a.m. to midnight Sunday through Saturday time period. The news ranking information is based on our management's review of the Nielsen Station Index, Viewers in Profile, dated May 2002. As NBC affiliate stations broadcasted the Olympic games during February 2002, their ratings for this period reflect a higher-than-normal viewership. CAGR refers to compound annual growth rate and EBI refers to effective buying income. EBI statistics reflect data for 2000 and 2005. In the *Competitive Landscape* tables below, we have included only stations that BIA has reported at one share or more in three of the four most recent ratings periods.

**Wichita Hutchinson, Kansas**

KAKE, KLBY and KUPK, all ABC affiliates, began operations in 1953. They collectively are ranked third in total viewers and in news programming in the Wichita-Hutchinson, Kansas market. KLBY and KUPK are satellite stations under FCC rules and are used to enhance Stations' ability to effectively serve the entire market. The area is well known for its involvement in the aviation industry, with the top three companies in the region, Boeing Company, Cessna Aircraft Company and Raytheon Aircraft Company representing that industry. The Wichita area also serves as a regional banking and medical center, as well as home to the McConnell Air Force Base. Other leading employers in the region are Wichita Public Schools and the State of Kansas. Wichita is also the home to Wichita State University, which has an enrollment of 14,000 students.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	1,175	1,212	0.62%
Retail Sales	\$ 15,293	\$ 18,877	4.30
EBI	19,659	23,850	3.94
Gross Market Revenue	57,200	71,200	4.48
Average Household Income	43.0	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
KWCH-TV, KBSD-TV, KBSH-TV & KBSL-TV KSNW, KSNK, KSNG & KSNK	CBS	VHF	Media General Broadcast Group	18	15	18	17
<b>KAKE-TV, KLBY &amp; KUPK-TV</b>	NBC	VHF	Emmis Communications Corp.	16	22	15	14
KSAS-TV, KAAS-TV & KBDK	ABC	VHF	<b>Stations Holding Company, Inc.</b>	<b>10</b>	<b>8</b>	<b>11</b>	<b>10</b>
KSCC	FOX	UHF	Clear Channel Television, Inc.	4	6	6	4
KWCV	UPN	UHF	Mercury Broadcasting Company, Inc.	2	2	2	2
	WB	UHF	Banks Broadcasting, Inc.	2	2	2	

**Table of Contents****Omaha, Nebraska**

WOWT, an NBC affiliate, began operations in 1949. It is ranked first in total viewers and second in news programming in the Omaha, Nebraska market. The Omaha DMA is home to five Fortune 100 companies, the U.S. Strategic Command Headquarters at Offutt Air Force Base, the University of Nebraska Medical Center and Creighton Medical Center. The University of Nebraska-Omaha has an enrollment of nearly 14,000, and Creighton University has an enrollment of 6,300. Major employers in the area include: the United States military, Union Pacific Railroad, ConAgra, Omaha Public Schools and First Data Resources. The Omaha market is adjacent to the Lincoln, Nebraska market where we own and operate television stations KOLN and KGIN.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	1,008	1,048	0.78%
Retail Sales	\$ 13,687	\$ 16,275	3.52
EBI	20,452	27,141	5.82
Gross Market Revenue	62,100	72,200	3.06
Average Household Income	52.9	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>WOWT</b>	<b>NBC</b>	<b>VHF</b>	<b>Stations Holding Company, Inc.</b>	<b>18</b>	<b>24</b>	<b>14</b>	<b>13</b>
KETV	ABC	VHF	Hearst-Argyle Television, Inc.	14	12	17	16
KMTV	CBS	VHF	Emmis Communications Corp.	14	10	15	12
KPTM	FOX	UHF	Pappas Telecasting Companies	7	9	9	7
KXVO	WB	UHF	Mitts Telecasting Company	3	3	3	4

**Madison, Wisconsin**

WMTV, an NBC affiliate, began operations in 1953. It is the first ranked station, with the second ranked news program, in the Madison, Wisconsin market. The Madison area hosts the international headquarters for American Family Insurance, Oscar Meyer, Ray-O-Vac and Lands End. In addition to being the state capital, the University of Wisconsin has a major campus in Madison and has an enrollment of over 41,000 students. Major employers in the area are: University of Wisconsin Hospital and Clinics, General Motors Corporation, American Family Insurance, Meritor Health and Wisconsin Physicians Insurance Corporation. The Madison market is adjacent to the Wausau-Rhineland market and La Crosse-Eau Claire, Wisconsin market where we own and operate television station WEAU.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	874	920	1.03%
Retail Sales	\$ 15,394	\$ 19,812	5.18
EBI	16,101	20,418	4.87
Gross Market Revenue	47,200	57,700	4.10
Average Household Income	47.3	NA	





**Table of Contents****Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WISC-TV	CBS	VHF	Morgan Murphy Stations	18	14	16	16
WMTV	NBC	UHF	<b>Stations Holding Company, Inc.</b>	<b>15</b>	<b>22</b>	<b>12</b>	<b>12</b>
WKOW	ABC	UHF	Quincy Newspapers, Inc.	10	8	11	11
WMSN-TV	FOX	UHF	Sinclair Broadcast Group, Inc.	7	7	12	5

**Colorado Springs, Colorado**

KKTV, a CBS affiliate, began operations in 1952. It is ranked first in total viewers and in news programming in the Colorado Springs, Colorado market. The Colorado Springs market is home to five major military installations: the Air Force Academy, Peterson Air Force Base, Fort Carson Army Base, Cheyenne Mountain Complex (NORAD), and Shriever Air Force Base. Major employers in the area in addition to the United States military include: The City of Colorado Springs, WorldCom, Inc., Intel Corporation and various non-profit organizations.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	799	870	1.72%
Retail Sales	\$ 10,439	\$ 13,172	4.76
EBI	12,591	16,149	5.10
Gross Market Revenue	42,300	49,700	3.28
Average Household Income	41.3	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>KKTV</b>	<b>CBS</b>	<b>VHF</b>	<b>Stations Holding Company, Inc.</b>	<b>17</b>	<b>14</b>	<b>16</b>	<b>15</b>
KOAA-TV	NBC	VHF	Evening Post Publishing Company	13	21	10	12
KRDO-TV	ABC	VHF	Pikes Peak Broadcasting Company, Inc.	11	11	12	11
KXRM	FOX	UHF	Raycom Media, Inc.	7	8	9	6
KXTU-LP	UPN	UHF	Raycom Media, Inc.	2	2	2	3

**Lansing, Michigan**

WILX, an NBC affiliate, began operations in 1957. It is ranked first in total viewers and in news programming in the Lansing, Michigan market. Lansing, the state capital, derives much of its economic base from state agencies, the automotive sector, and the Michigan State University which has over 43,000 students. Some of the top employers in the region include: the State of Michigan, Michigan State University, General Motors Corporation, Sparrow Health Systems and Meijer Grocery Stores.

**Table of Contents****Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	655	669	0.42%
Retail Sales	\$ 7,561	\$ 8,408	2.15
EBI	10,823	12,728	3.30
Gross Market Revenue	31,900	39,700	4.47
Average Household Income	45.1	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WLNS	CBS	VHF	Young Broadcasting Inc.	17	14	16	15
<b>WILX-TV</b>	<b>NBC</b>	<b>VHF</b>	<b>Stations Holding Company, Inc.</b>	<b>15</b>	<b>20</b>	<b>13</b>	<b>12</b>
WSYM-TV	FOX	UHF	Journal Broadcast Group, Inc.	5	6	9	5
WLAJ	ABC	UHF	Freedom Communications, Inc.	5	4	8	6

**Rockford, Illinois**

WIFR, a CBS affiliate, began operations in 1965. It is ranked first in total viewers and in news programming in the Rockford, Illinois market. Currently, Rockford's economy is based on the fastener business, as well as the manufacturing of machine parts and aerospace parts. Rockford is emerging as a growing regional education center, having the well respected, small liberal arts school Rockford College in its vicinity. Major employers in the region include: United Parcel Service, Rockford School District, Rockford Health Systems, DaimlerChrysler Corporation, Swedish American Health Systems and Hamilton Sundstrand Corporation.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	460	472	0.52%
Retail Sales	\$ 5,341	\$ 5,965	2.23
EBI	8,178	9,590	3.24
Gross Market Revenue	26,600	33,100	4.47
Average Household Income	46.3	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WREX-TV	NBC	VHF	Quincy Newspapers, Inc.	16	23	16	13
<b>WIFR</b>	<b>CBS</b>	<b>UHF</b>	<b>Stations Holding Company, Inc.</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>15</b>
WTVO	ABC	UHF	Young Broadcasting Inc.	10	9	11	10
WQRF-TV	FOX	UHF	Quorum Broadcasting Company	8	8	10	7

**Wausau-Rhineland, Wisconsin**

WSAW, a CBS affiliate, began operations in 1954. It is ranked first in total viewers and in news programming in the Wausau-Rhineland, Wisconsin market. In addition to being a regional medical

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center, Wausau and the surrounding communities are known as a major capital of paper products and insurance. The University of Wisconsin-Stevens Point has over 10,000 students and is located in the DMA. Major employers in the region include: Wausau Insurance, Marshfield Clinics, Wausau Hospital, Wausau-Mosinee Paper Corporation and the City of Wausau. The Wausau-Rheinlander market is adjacent to the Madison, Wisconsin market and the La Crosse-Ean Claire, Wisconsin market where we own and operate television station WEAU.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	444	456	0.53%
Retail Sales	\$ 6,323	\$ 7,707	4.04
EBI	6,984	8,558	4.15
Gross Market Revenue	18,100	22,000	3.98
Average Household Income	41.4	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WSAW-TV	CBS	VHF	Stations Holding Company, Inc.	21	18	19	19
WAOW-TV & WYOW	ABC	VHF	Quincy Newspapers, Inc.	15	16	17	14
WJFW-TV	NBC	VHF	Rockfleet Broadcasting, Inc.	8	13	8	7
WFXS	FOX	UHF	Davis Television, LLC	4	5	9	3

**Topeka, Kansas**

WIBW, a CBS affiliate, began operations in 1953. It is ranked first in total viewers and in news programming in the Topeka, Kansas market. The Topeka DMA has an agricultural base which is augmented by production and manufacturing. In addition to being the state capital, Topeka is home to Forbes Air Force Base, Kansas State University with an enrollment of 22,400 and Washburn University with an enrollment of 6,300 students. Major employers in the area include: Goodyear Tire and Rubber Corporation, Payless ShoeSource, Blue Cross Blue Shield of Kansas and Burlington Northern Santa Fe Railroad.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	443	442	(0.05)%
Retail Sales	\$ 5,537	\$ 6,723	3.96
EBI	6,708	7,631	2.61
Gross Market Revenue	16,200	19,900	4.20
Average Household Income	39.8	NA	

**Table of Contents****Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WIBW	CBS	VHF	Stations Holding Company, Inc.	22	18	20	20
KSNT	NBC	UHF	Emmis Communications Corp.	14	20	12	12
KTKA-TV	ABC	UHF	Brechner Management Company	5	5	8	7
KTMJ-CA	FOX, UPN	VHF	Montgomery Communications, Inc.	2	3	3	2

**Dothan, Alabama**

WTVY, a CBS affiliate, began operations in 1954. It is ranked first in total viewers and in news programming in the Dothan, Alabama market. Dothan serves as the regional economic, retail, and medical center. It houses Ft. Rucker Army Base, the Southeast Alabama Medical Center, and serves as an important agricultural center. Major employers in the area include: Southeast Alabama Medical Center, Collins Signs, Dothan and Houston Counties School System, Perdue Farms, Inc. and Flowers Hospital. The Dothan market is adjacent to the Panama City, Florida market where we own and operate WJHG.

**Market Overview**

	2001	2006	CAGR
	(In thousands)		
DMA Population	246	249	0.24%
Retail Sales	\$ 2,963	\$ 3,288	2.10
EBI	3,481	4,187	3.76
Gross Market Revenue	11,900	14,500	4.03
Average Household Income	36.6	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
WTVY	CBS	VHF	Stations Holding Company, Inc.	22	21	23	22
WDHN	ABC	UHF	Morris Multimedia, Inc.	6	6	7	6
WDFX-TV	FOX	UHF	Waite Broadcasting, Inc.	4	6	5	3

**Harrisonburg, Virginia**

WHSV, an ABC affiliate, began operations in 1953. It is the only commercial television station broadcasting in the Harrisonburg, Virginia market and is ranked first in total viewers and in news programming. The Harrisonburg market derives much of its economic base from poultry products, book manufacturing and the pharmaceutical industry. James Madison University, with an enrollment of over 16,000, is located in the DMA. Major employers in the area include: James Madison University, Pilgrims Pride, Cargill, Rockingham Memorial Hospital and R.R. Donnelley & Sons Company.

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	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	228	236	0.69%
Retail Sales	\$2,953	\$ 3,512	3.53
EBI	3,493	4,174	3.63
Gross Market Revenue	9,800	11,800	3.78
Average Household Income	40.7	NA	

**Competitive Landscape**

<u>Station</u>	<u>Network</u>	<u>VHF or UHF</u>	<u>Owner</u>	<u>Share Summary 9AM to Midnight</u>			
				<u>May-02</u>	<u>Feb-02</u>	<u>Nov-01</u>	<u>Jul-01</u>
WHSV-TV	ABC	VHF	Stations Holding Company, Inc.	16	15	18	18

**Bowling Green, Kentucky**

WBKO, an ABC affiliate, began operations in 1962. It is ranked first in total viewers and in news programming in the Bowling Green, Kentucky market. Bowling Green is located approximately 65 miles outside of Nashville, Tennessee and benefits from its proximity to this major city. Bowling Green is home to Western Kentucky University which has an enrollment of almost 15,000 students. Some of the major employers in the region include: Commonwealth Health Corp., Warren County Board of Education, Western Kentucky University, General Motors Corvette Plant and DESA International. The Bowling Green market is adjacent to the Lexington, Kentucky market where we own and operate WKYT and WYMT.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	209	220	1.03%
Retail Sales	\$2,475	\$2,865	2.97
EBI	3,039	4,006	5.68
Gross Market Revenue	7,500	8,800	3.25
Average Household Income	37.5	NA	

**Competitive Landscape**

<u>Station</u>	<u>Network</u>	<u>VHF or UHF</u>	<u>Owner</u>	<u>Share Summary 9AM to Midnight</u>			
				<u>May-02</u>	<u>Feb-02</u>	<u>Nov-01</u>	<u>Jul-01</u>
WBKO	ABC	VHF	Stations Holding Company, Inc.	21	22	22	22
WNKY	NBC	UHF	Northwest Broadcasting, L.P.	5	7	4	2

**Meridian, Mississippi**

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WTOK, an ABC affiliate, began operations in 1953. It is ranked first in total viewers and in news programming in the Meridian, Mississippi market. Meridian Naval Air Station is located in the DMA of Meridian, which also is a regional medical and economic center. Major industries in the area include tourism, timber processing, paper products and electronics manufacturing. Top employers in the area include: Peavey Electronics, Mississippi Band of Choctaw Indians, Meridian Naval Air Station, Jeff Anderson Regional Medical Center and the Meridian School System.



**Table of Contents****Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	189	190	0.11%
Retail Sales	\$1,883	\$2,245	3.58
EBI	2,469	3,048	4.30
Gross Market Revenue	7,900	9,800	4.40
Average Household Income	34.7	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>WTOK-TV</b>	<b>ABC</b>	<b>VHF</b>	<b>Stations Holding Company, Inc.</b>	<b>21</b>	<b>21</b>	<b>23</b>	<b>21</b>
WMDN	CBS	UHF	Spain, Frank & Family	7	9	9	5
WGBC	NBC	UHF	Global Communications, Inc.	6	7	5	4

**Parkersburg, West Virginia**

WTAP, an NBC affiliate, began operations in 1953. It is the only commercial television station broadcasting in the Parkersburg, West Virginia market and is ranked first in total viewers and in news programming. The Parkersburg DMA is a major chemical and petroleum center, with such employers as Dupont, Eramet, General Electric Company, Chevron, Globe Metallurgical and Krayton. Other significant employers include Coldwater Creek Clothiers and Ames Hardware. The Parkersburg DMA also plays host to Marietta College with an enrollment of nearly 23,500.

**Market Overview**

	<u>2001</u>	<u>2006</u>	<u>CAGR</u>
	(In thousands)		
DMA Population	159	157	(0.25)%
Retail Sales	\$1,911	\$2,025	1.17
EBI	2,539	3,051	3.74
Gross Market Revenue	5,600	6,600	3.34
Average Household Income	39.9	NA	

**Competitive Landscape**

Station	Network	VHF or UHF	Owner	Share Summary 9AM to Midnight			
				May-02	Feb-02	Nov-01	Jul-01
<b>WTAP-TV</b>	<b>NBC</b>	<b>UHF</b>	<b>Stations Holding Company, Inc.</b>	<b>21</b>	<b>27</b>	<b>19</b>	<b>21</b>

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**BUSINESS OF STATIONS HOLDING COMPANY, INC.**

**Overview of Stations**

We plan to acquire in the merger 15 of Stations' television stations. These television stations are geographically diverse and serve small to medium-sized markets in 11 states. Five of the stations are affiliated with CBS, six are affiliated with ABC, and four are affiliated with NBC. All of the data included in this section relates solely to the stations that we plan to acquire in the merger.

The stations are located in DMAs ranked in size from 65 to 186 out of the 210 DMAs surveyed by Nielsen. The broadcast signals for these stations that we intend to acquire in the merger reach 2.6 million television households, representing 2.5% of all television households in the United States. Stations believes that broadcast television stations in small to medium-sized markets offer an opportunity to generate attractive and stable broadcasting cash flow due to limited competition from:

other television stations for viewers;

other media soliciting advertising expenditures; and

other television stations purchasing syndicated programming.

Stations operates in markets that typically have stable employment and a diverse base of employers. Stations generally targets markets that have population centers that share common community interests and are receptive to local programming. Stations' local programming and news content coupled with its network affiliations provide each of its stations with an established audience and reputation for news, spo