SPECIALTY LABORATORIES INC
Form 8-K
May 01, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **April 30, 2003**

Specialty Laboratories, Inc.

(Exact name of registrant as specified in charter)

California	**001-16217**	**95-2961036**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2211 Michigan Avenue, Santa Monica, California	**90404**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(310) 828-6543**

(Former name or former address, if changed since last report.)

ITEM 9 REGULATION FD DISCLOSURE

On April 30, 2003, Specialty Laboratories, Inc. (the Registrant) filed its Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (the Report) with the Securities and Exchange Commission. Accompanying such Report were certifications of Specialty Laboratories Inc. s Chief Executive Officer, Douglas S. Harrington, and Chief Financial Officer, Frank J. Spina, pursuant to 18 U.S.C. § 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The text of each of these certifications is set forth below:

Certification of Chief Executive Officer and Chief Financial Officer
pursuant to 18 U.S.C. § 1350 adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I, Douglas S. Harrington, Chief Executive Officer of Specialty Laboratories, Inc. (the Company), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report of the Company on Form 10-Q for the quarterly period ending March 31, 2003, as filed with the Securities and Exchange Commission (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Douglas S. Harrington

Douglas S. Harrington
Chief Executive Officer
April 30, 2003

I, Frank J. Spina, Chief Financial Officer of Specialty Laboratories, Inc. (the Company), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report of the Company on Form 10-Q for the quarterly period ending March 31, 2003, as filed with the Securities and Exchange Commission (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Frank J. Spina

Frank J. Spina
Chief Financial Officer
April 30, 2003

SIGNATURE

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

Specialty Laboratories, Inc.

Date: April 30, 2003

By: /s/ FRANK J. SPINA
Frank J. Spina,
Chief Financial Officer

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n-left:10px; text-indent:-10px"> Assets of stations held for sale 33,351 $(33,351)
Current portion of program broadcast rights
1,260 1,260
Other current assets
2,896 2,896
Property and equipment
48,579 48,579
Other long term assets
1,799 1,799
Deferred loan costs
3,534 (3,126) 408
FCC licenses, network affiliation agreements and other indefinite lived intangible assets
210,370 242,244 452,614
Consulting, noncompete and other definite lived intangible assets
3,000 3,000
Goodwill
78,099 37,031 115,130
Trade payables and accrued expenses
(17,625) 9,957 (7,668)
Current portion of notes payable
(1,979) (1,979)
Current portion of program broadcast obligations
(3,471) (3,471)
Liabilities of stations held for sale
(6,365) 6,365
Deferred revenue
(265) (265)
Deferred tax liabilities
(28,041) 3,684 (91,643) (116,000)
Long term portion of program broadcast obligations
(1,120) (1,120)
Long term portion of notes payable
(3,050) (3,050)
Other long term liabilities
(500) (500)

Total purchase price including expenses	$345,331	$(13,345)	$185,856	$517,842

The allocation of the consideration to the assets and liabilities of Stations acquired by us will remain preliminary until we have finalized our assessment of these assets and liabilities following the acquisition. Such assessment will be based in part upon third party evaluations, which we will not receive until after the acquisition is completed.

(c) Reflects the elimination of assets sold or to be sold and the liabilities assumed, or to be assumed, for the nine television stations, which have been or will be sold by Stations prior to our merger.

(d) Reflects (1) our issuance of an estimated $153.1 million of senior debt with a variable interest rate based on LIBOR plus a premium which we have assumed to be 3.25% and we have further assumed for the pro forma adjustments that the effective interest rate on this debt is 5.55% and that it will have an assumed average life to maturity of 8.25 years, (2) our offering of $100 million of senior

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subordinated indebtedness with an assumed effective interest rate of 9.25% and an assumed average life to maturity of 9.2 years, (3) our incurring $7.2 million of deferred financing fees in connection with revising or replacing our senior credit facility and our offering of senior subordinated notes and (4) the elimination of our historical deferred financing charges of $5.8 million associated with our prior senior credit facility net of an income tax benefit assuming an effective tax rate of 38%.

(e) Reflects the elimination of certain senior and subordinated debt and related accrued interest of Stations reflecting the repayment, in full, of such debt as part of Stations plan of reorganization. The cash used to make such debt repayments is a portion of the cash provided from our proposed issuance of senior debt, subordinated debt and class B common stock as discussed below.

(f) Reflects the elimination of the historical stockholders equity of Stations including all preferred stock, common stock, additional paid-in capital and accumulated deficits.

(g) Reflects our assumed issuance of an additional 20,676,692 shares of our class B common stock at an assumed price of $13.30 per share, the closing price as of June 30, 2002, net of assumed issuance costs of $18.0 million. We may elect to offer, in whole or in part, other equity or equity-linked securities including preferred stock in place of offering our class B common stock. 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.

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DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of certain of our indebtedness and obligations. To the extent such summary contains descriptions of the senior secured credit facility, the 2001 notes or the exchange notes, such descriptions do not purport to be complete and are qualified in their entirety by reference to those and related documents, copies of which we will provide you upon request as described under Incorporation by Reference.

Senior Secured Credit Facility

We amended and restated our senior secured credit facility on September 25, 2001. The facility provides us with a $200.0 million term facility and a $50.0 million reducing revolving credit facility. In addition, the agreement provides us with the ability to access, through December 31, 2003, up to $100.0 million of incremental senior secured term loans upon the consent of the lenders.

Under the revolving and term facilities, at our option, we can borrow funds at an interest rate equal to LIBOR plus a margin or at the lenders base rate plus a margin. The base rate will generally be equal to the lenders prime rate. Interest rates under the revolving facility are base rate plus a margin ranging from 0.25% to 1.75% or LIBOR plus a margin ranging from 1.5% to 3.0%. Interest rates under the term facility are base rate plus a margin ranging from 1.75% to 2.0% or LIBOR plus a margin ranging from 3.0% to 3.25%. Our applicable margin will be determined by our operating leverage ratio which is calculated quarterly. As of June 30, 2002, the interest rate for the revolving credit facility was the lenders base rate plus 1.75% or LIBOR plus 3.0% at our option. As of June 30, 2002, the interest rate for the term facility was the lenders base rate plus 2.0% or LIBOR plus 3.25% at our option.

The lenders commitments for the revolving facility will reduce quarterly, as specified in the credit agreement, beginning March 31, 2004, and final repayment of any outstanding amounts under the revolving facility is due December 31, 2008. The term facility commences amortization in quarterly installments of $500,000 beginning March 31, 2003 through December 31, 2008, with the remaining outstanding balance payable in three equal quarterly installments beginning March 31, 2009. The final maturity date for any outstanding amounts under the term facility is September 30, 2009.

The facilities are collateralized by substantially all of the assets, excluding real estate, of our subsidiaries and us. In addition, our subsidiaries are joint and several guarantors of the obligations and our ownership interests in our subsidiaries are pledged to collateralize the obligations. The agreement contains certain restrictive provisions which include, but are not limited to, requiring us to maintain certain financial ratios and limits upon our ability to incur additional indebtedness, make certain acquisitions or investments, sell assets and make other restricted payments.

As of June 30, 2002, we had senior indebtedness of $200.0 million funded under our senior secured credit facility. As of this date, we had unused availability of $37.5 million under our senior secured credit facility after giving effect to the $12.5 million undrawn letter of credit. The interest rate on the balance outstanding was 5.3%. In conjunction with the merger, we intend to amend our existing credit facility or enter into a new credit facility. Following the merger, the stock and assets of our subsidiaries, including Stations and its subsidiaries, and any future subsidiaries that we may acquire will be subject to liens under our senior secured credit facility.

The 2001 Notes and the Exchange Notes

On April 12, 2002, we filed with the SEC a registration statement on Form S-4, offering to exchange up to $180.0 million in aggregate principal amount of the exchange notes, which have been registered under the Securities Act for all of our 2001 notes. The SEC declared the registration statement on Form S-4 effective and the exchange offer commenced on July 19, 2002 and ended on August 16, 2002. All of the 2001 notes were tendered for exchange in the exchange offer.

The 2001 notes and the exchange notes are our general unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness, including all of our obligations under our

senior secured credit facility. The interest rate on the 2001 notes and the exchange notes is 9.25% per year (calculated using a 360-day year) payable on June 15 and December 15 of each year, beginning on June 15, 2002.

The 2001 notes and the exchange notes are guaranteed, jointly and severally, fully and unconditionally, on a senior subordinated basis by each of the guarantors, which consist of all of our subsidiaries. The obligations of a guarantor under its guarantee of the notes are subordinated in right of payment, to the same extent as our obligations under the 2001 notes and the exchange notes, to all existing and future senior indebtedness of such guarantor, which includes any guarantee by it of our indebtedness under our senior secured credit facility.

The indenture governing the 2001 notes and the exchange notes contains certain covenants that, among other things, limit our ability to (1) transfer or issue shares of capital stock of subsidiaries to third parties, (2) pay dividends or make certain other payments, (3) incur additional indebtedness, (4) issue preferred stock, (5) incur liens to secure our indebtedness, (6) apply net proceeds from certain asset sales, (7) enter into certain transactions with affiliates or (8) merge with or into any other person.

We may redeem:

- all or part of the original principal amount of the 2001 notes and the exchange notes beginning on December 15, 2006, at redemption prices based on the year of redemption, plus accrued and unpaid interest;

- up to 35% of the original principal amount of the 2001 notes and the exchange notes at any time prior to December 15, 2004 at a price of 109.250% of the principal amount of the 2001 notes and the exchange notes, respectively, plus accrued and unpaid interest, with the proceeds of certain public equity offerings of our company; and

- all but not part of the 2001 notes and the exchange notes at any time prior to December 15, 2006 at a price equal to 100% of the principal amount of the 2001 notes and the exchange notes, respectively, plus accrued and unpaid interest, if any, to the date of redemption plus a make-whole premium based upon the present value of the remaining payments on the 2001 notes and the exchange notes.

Upon a change in control, defined as the acquisition by any persons of beneficial ownership of more than 35% of the voting power of the outstanding shares of our common stock, transfers of substantially all of our assets, certain substantial changes in our board of directors, certain consolidations or mergers of our company involving a significant change in shareholdings or the liquidation of our company, we will be required to make an offer to repurchase all of the outstanding 2001 notes and outstanding exchange notes at 101% of their aggregate principal amount plus accrued and unpaid interest to the date of purchase. Under certain circumstances, we may not be required to make such a change of control offer.

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DESCRIPTION OF CAPITAL STOCK

We are authorized to issue 50,000,000 shares of all classes of stock, of which 15,000,000 shares are designated class A common stock, 15,000,000 shares are designated class B common stock and 20,000,000 shares are designated preferred stock for which our board of directors has the authority to determine the rights, powers, limitations and restrictions.

On August 30, 2002, we changed our ticker symbols to GTN.A from GCS for our class A common stock and to GTN from GCS.B for our class B common stock on the New York Stock Exchange. On September 16, 2002, we plan to hold a stockholder vote to approve a change in the name of our class B common stock. If the proposal passes, the new name of our class B common stock will be Common Stock.

Terms of Our Common Stock

As of June 30, 2002, 6,848,467 shares of class A common stock were issued and outstanding and 8,882,841 shares of class B common stock were issued and outstanding (excluding 885,269 shares of class B common stock held in escrow under the merger agreement). The rights of our class A and class B common stock are identical, except that our class A common stock entitles the holder to ten votes on all matters on which shareholders are permitted to vote and our class B common stock entitles the holder to one vote on all matters on which shareholders are permitted to vote. The holders of our common stock are entitled to dividends when, as and if declared by our board of directors out of funds legally available therefor and, upon liquidation, to a pro rata share in any distribution to shareholders. Our common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of our class A and class B common stock are fully paid and nonassessable.

Terms of Our Preferred Stock

As of June 30, 2002, 4,000 shares of Series C convertible preferred stock were issued and outstanding. The following is a description of our Series C:

Our Series C is preferred stock and ranks senior to our class A and class B common stock as to payment of dividends and distribution of assets upon liquidation.

Our Series C has a liquidation value equal to $10,000 per share plus accrued and unpaid dividends to the date of final distribution. There are no sinking fund provisions applicable to our Series C.

Our Series C has a cumulative annual dividend of $800 per share, and beginning on April 22, 2009, $850 per share, payable, at our option, in cash or in additional shares of Series C on a quarterly basis beginning on June 30, 2002.

Our Series C is convertible, at the option of the holder, into shares of our class B common stock at an initial conversion price of $14.39 per share, subject to certain adjustments, except that our affiliates may not convert their shares of Series C unless and until the issuance of the Series C to them has been approved by our shareholders or otherwise permitted by the New York Stock Exchange.

Our Series C is redeemable, in whole or in part, at our option, on or after April 22, 2007, at a redemption price equal to $10,000 per share plus accrued and unpaid dividends. We must redeem all of the then outstanding shares of Series C on April 22, 2012 at a redemption price equal to $10,000 per share plus accrued and unpaid dividends.

Holders of our Series C will not have any voting rights except as set forth below or as otherwise required by law. Holders of our Series C: (1) will be entitled to elect two additional directors of our company in the event of a default of the equivalent of six quarterly dividends on our Series C and (2) have approval rights over (A) the authorization or issuance of any shares of, or the reclassification of any shares of our capital stock into shares of, our capital stock ranking senior to

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our Series C, (B) the authorization or issuance of any additional shares of Series C and (C) any amendment of our restated articles of incorporation that adversely affects the powers, preferences or special rights of our Series C.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Mellon Investor Services LLC. It is located at One Mellon Bank Center, 500 Grant Street, Room 2122, Pittsburgh, PA 15258-0001 and its telephone number is (412) 236-8172.

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DESCRIPTION OF DEBT SECURITIES

The following is a summary description of the general terms of the debt securities covered by this prospectus. We will file a prospectus supplement that may contain additional terms when we issue debt securities under one or more senior or subordinated indentures. The terms presented here, together with the terms in a related prospectus supplement, which could be different from the terms described below, will be a description of the material terms of the debt securities. You should also read the applicable indenture. We are filing forms of indentures with the SEC as exhibits to the registration statement of which this prospectus is a part. All capitalized terms have the meanings specified in the indentures. The indentures are substantially identical except for the subordination provisions described below under Subordinated Debt Securities. The terms and provisions of the debt securities below most likely will be modified by the documents that set forth the specific terms of the debt securities issued.

We may issue, from time to time, debt securities, in one or more series, that will consist of either our senior or subordinated debt. The debt securities we offer will be issued under an indenture or indentures between us and a trustee. Debt securities, whether senior or subordinated, may be issued as convertible debt securities or exchangeable debt securities.

General

Debt securities may be issued in separate series without limitation as to aggregate principal amount. We may specify a maximum aggregate principal amount for the debt securities of any series.

We are not limited as to the amount of debt securities we may issue under the indentures. The prospectus supplement will set forth:

- whether the debt securities will be senior or subordinated,
- the offering price,
- the title,
- any limit on the aggregate principal amount,
- the person who shall be entitled to receive interest, if other than the record holder on the record date,
- the date the principal will be payable,
- the interest rate, if any, the date interest will accrue, the interest payment dates and the regular record dates,
- the place where payments may be made,
- any mandatory or optional redemption provisions,
- any obligation to redeem or purchase the debt securities pursuant to a sinking fund,
- if applicable, the method for determining how the principal, premium, if any, or interest will be calculated by reference to an index or formula,
- conversion or exchange provisions, if any, including conversion or exchange prices or rates and adjustments thereto,
- if other than U.S. currency, the currency or currency units in which principal, premium, if any, or interest will be payable and whether we or the holder may elect payment to be made in a different currency,
- the portion of the principal amount that will be payable upon acceleration of stated maturity, if other than the entire principal amount,

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- if the principal amount payable at stated maturity will not be determinable as of any date prior to stated maturity, the amount which will be deemed to be the principal amount,
- any defeasance provisions if different from those described below under Satisfaction and Discharge; Defeasance,
- any conversion or exchange provisions,
- whether the debt securities will be issuable in the form of a global security,
- any subordination provisions, if different than those described below under Subordinated Debt Securities,
- any deletions of, or changes or additions to, the events of default or covenants, and
- any other specific terms of such debt securities.

Unless otherwise specified in a prospectus supplement:

- the debt securities will be registered debt securities, and
- registered debt securities denominated in U.S. dollars will be issued in denominations of $1,000 or an integral multiple of $1,000.

Debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at time of issuance is below market rates.

Exchange and Transfer

Debt securities may be transferred or exchanged at the office of the security registrar or at the office of any transfer agent designated by us.

We will not impose a service charge for any transfer or exchange, but we may require holders to pay any tax or other governmental charges associated with any transfer or exchange.

In the event of any potential redemption of debt securities of any series, we will not be required to:

- issue, register the transfer of, or exchange, any debt security of that series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption and ending at the close of business on the day of the mailing, or
- register the transfer of or exchange any debt security of that series selected for redemption, in whole or in part, except the unredeemed portion being redeemed in part.

We may initially appoint the trustee as the security registrar. Any transfer agent, in addition to the security registrar, initially designated by us will be named in a prospectus supplement. We may designate additional transfer agents or change transfer agents or change the office of the transfer agent. However, we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

Global Securities

The debt securities of any series may be represented, in whole or in part, by one or more global securities. Each global security will:

- be registered in the name of a depositary that we will identify in a prospectus supplement,
- be deposited with the depositary or nominee or custodian, and
- bear any required legends.

No global security may be exchanged in whole or in part for debt securities registered in the name of any person other than the depositary or any nominee unless:

the depositary has notified us that it is unwilling or unable to continue as depositary or has ceased to be qualified to act as depositary,

an event of default is continuing, or

any other circumstances described in a prospectus supplement.

As long as the depositary, or its nominee, is the registered owner of a global security, the depositary or nominee will be considered the sole owner and holder of the debt securities represented by the global security for all purposes under the indenture. Except in the above limited circumstances, owners of beneficial interests in a global security:

will not be entitled to have the debt securities registered in their names,

will not be entitled to physical delivery of certificated debt securities, and

will not be considered to be holders of those debt securities under the indentures.

Payments on a global security will be made to the depositary or its nominee as the holder of the global security. Some jurisdictions have laws that require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Institutions that have accounts with the depositary or its nominee are referred to as participants. Ownership of beneficial interests in a global security will be limited to participants and to persons that may hold beneficial interests through participants. The depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its participants.

Ownership of beneficial interests in a global security will be shown on and effected through records maintained by the depositary, with respect to participants interests, or any participant, with respect to interests of persons held by participants on their behalf.

Payments, transfers and exchanges relating to beneficial interests in a global security will be subject to policies and procedures of the depositary.

The depositary policies and procedures may change from time to time. Neither we nor the trustee will have any responsibility or liability for the depositary s or any participant s records with respect to beneficial interests in a global security.

Payment and Paying Agents

The provisions of this paragraph will apply to the debt securities unless otherwise indicated in a prospectus supplement. Payment of interest on a debt security on any interest payment date will be made to the person in whose name the debt security is registered at the close of business on the regular record date. Payment on debt securities of a particular series will be payable at the office of a paying agent or paying agents designated by us. However, at our option, we may pay interest by mailing a check to the record holder. The corporate trust office will be designated as our sole paying agent.

We may also name any other paying agents in a prospectus supplement. We may designate additional paying agents, change paying agents or change the office of any paying agent. However, we will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by us to a paying agent for payment on any debt security which remain unclaimed at the end of two years after such payment was due will be repaid to us. Thereafter, the holder may look only to us for such payment.

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Consolidation, Merger and Sale of Assets

We may not consolidate with or merge into any other person, in a transaction in which we are not the surviving corporation, or convey, transfer or lease our properties and assets substantially as an entirety to, any person, unless:

the successor, if any, is a U.S. corporation, limited liability company, partnership, trust or other entity,

the successor assumes all of our obligations under the debt securities and the indenture,

immediately after giving effect to the transaction, no default or event of default shall have occurred and be continuing, and

certain other conditions are met.

Events of Default

Unless we inform you otherwise in a prospectus supplement, the indenture will define an event of default with respect to any series of debt securities as one or more of the following events:

(1) failure to pay principal of or any premium on any debt security of that series when due,

(2) failure to pay any interest on any debt security of that series for 30 days when due,

(3) failure to deposit any sinking fund payment when due,

(4) failure to perform any other covenant in the indenture continued for 60 days after being given the notice required in the indenture,

(5) our bankruptcy, insolvency or reorganization, and

(6) any other event of default specified in a prospectus supplement.

An event of default of one series of debt securities is not necessarily an event of default for any other series of debt securities. If an event of default, other than an event of default described in clause (5) above, shall occur and be continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding securities of that series may declare the principal amount of the debt securities of that series to be due and payable immediately.

If an event of default described in clause (5) above shall occur, the principal amount of all the debt securities of that series will automatically become immediately due and payable. Any payment by us on the subordinated debt securities following any such acceleration will be subject to the subordination provisions described below under Subordinated Debt Securities.

After acceleration the holders of a majority in aggregate principal amount of the outstanding securities of that series may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the non-payment of accelerated principal, or other specified amount, have been cured or waived.

Other than the duty to act with the required care during an event of default, the trustee will not be obligated to exercise any of its rights or powers at the request of the holders unless the holders shall have offered to the trustee reasonable indemnity. Generally, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

A holder will not have any right to institute any proceeding under the indentures, or for the appointment of a receiver or a trustee, or for any other remedy under the indentures, unless:

(1) the holder has previously given to the trustee written notice of a continuing event of default with respect to the debt securities of that series,

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(2) the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made a written request and have offered reasonable indemnity to the trustee to institute the proceeding, and

(3) the trustee has failed to institute the proceeding and has not received direction inconsistent with the original request from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series within 60 days after the original request.

Holders may, however, sue to enforce the payment of principal, premium or interest on any debt security on or after the due date or to enforce the right, if any, to convert any debt security without following the procedures listed in (1) through (3) above.

We will furnish the trustee an annual statement by our officers as to whether or not we are in default in the performance of the indenture and, if so, specifying all known defaults.

Modification and Waiver

We and the trustee may make modifications and amendments to the indentures with the consent of the holders of a majority in aggregate principal amount of the outstanding securities of each series affected by the modification or amendment.

However, neither we nor the trustee may make any modification or amendment without the consent of the holder of each outstanding security of that series affected by the modification or amendment if such modification or amendment would:

- change the stated maturity of any debt security,
- reduce the principal, premium, if any, or interest on any debt security,
- reduce the principal of an original issue discount security or any other debt security payable on acceleration of maturity,
- reduce the rate of interest on any debt security,
- change the currency in which any debt security is payable,
- impair the right to enforce any payment after the stated maturity or redemption date,
- waive any default or event of default in payment of the principal of, premium or interest on any debt security,
- waive a redemption payment or modify any of the redemption provisions of any debt security,
- adversely affect the right to convert any debt security, or
- change the provisions in the indenture that relate to modifying or amending the indenture.

Satisfaction and Discharge; Defeasance

We may be discharged from our obligations on the debt securities of any series that have matured or will mature or be redeemed within one year if we deposit with the trustee enough cash to pay all the principal, interest and any premium due to the stated maturity date or redemption date of the debt securities.

Each indenture contains a provision that permits us to elect:

- to be discharged from all of our obligations, subject to limited exceptions, with respect to any series of debt securities then outstanding, and/or

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to be released from our obligations under the following covenants and from the consequences of an event of default resulting from a breach of these covenants:

- the subordination provisions under the subordinated indenture, and
- covenants as to payment of taxes and maintenance of corporate existence.

To make either of the above elections, we must deposit in trust with the trustee enough money to pay in full the principal, interest and premium on the debt securities. This amount may be made in cash and/or U.S. government obligations. As a condition to either of the above elections, we must deliver to the trustee an opinion of counsel that the holders of the debt securities will not recognize income, gain or loss for Federal income tax purposes as a result of the action.

If any of the above events occurs, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for the rights of holders to receive payments on debt securities or the registration of transfer and exchange of debt securities and replacement of lost, stolen or mutilated debt securities.

Notices

Notices to holders will be given by mail to the addresses of the holders in the security register.

Governing Law

The indentures and the debt securities will be governed by, and construed under, the laws of the State of New York.

Regarding the Trustee

The indenture limits the right of the trustee, should it become our creditor, to obtain payment of claims or secure its claims.

The trustee is permitted to engage in certain other transactions. However, if the trustee acquires any conflicting interest, and there is a default under the debt securities of any series for which they are trustee, the trustee must eliminate the conflict or resign.

Subordinated Debt Securities

Payment on the subordinated debt securities will, to the extent provided in the indenture, be subordinated in right of payment to the prior payment in full of all our senior indebtedness.

Upon any distribution of our assets upon any dissolution, winding up, liquidation or reorganization, the payment of the principal of and interest on the subordinated debt securities will be subordinated in right of payment to the prior payment in full in cash or other payment satisfactory to the holders of senior indebtedness of all senior indebtedness. In the event of any acceleration of the subordinated debt securities because of an event of default, the holders of any senior indebtedness would be entitled to payment in full in cash or other payment satisfactory to such holders of all senior indebtedness obligations before the holders of the subordinated debt securities are entitled to receive any payment or distribution. The indenture requires us or the trustee to promptly notify holders of designated senior indebtedness if payment of the subordinated debt securities is accelerated because of an event of default.

We may not make any payment on the subordinated debt securities, including upon redemption at the option of the holder of any subordinated debt securities or at our option, if:

- a default in the payment of the principal, premium, if any, interest, rent or other obligations in respect of designated senior indebtedness occurs and is continuing beyond any applicable period of grace (called a payment default), or

- a default other than a payment default on any designated senior indebtedness occurs and is continuing that permits holders of designated senior indebtedness to accelerate its maturity, and the trustee receives a notice of such default (called a payment blockage notice) from us or any other person permitted to give such notice under the indenture (called a non-payment default).

We may resume payments and distributions on the subordinated debt securities:

- in the case of a payment default, upon the date on which such default is cured or waived or ceases to exist, and

- in the case of a nonpayment default, upon the earlier of the date on which such nonpayment default is cured or waived or ceases to exist and 179 days after the date on which the payment blockage notice is received by the trustee, if the maturity of the designated senior indebtedness has not been accelerated.

No new period of payment blockage may be commenced pursuant to a payment blockage notice unless 365 days have elapsed since the initial effectiveness of the immediately prior payment blockage notice and all scheduled payments of principal, premium and interest, including any liquidated damages, on the debt securities that have come due have been paid in full in cash. No nonpayment default that existed or was continuing on the date of delivery of any payment blockage notice shall be the basis for any later payment blockage notice unless the non-payment default is based upon facts or events arising after the date of delivery of such payment blockage notice.

If the trustee or any holder of the notes receives any payment or distribution of our assets in contravention of the subordination provisions on the subordinated debt securities before all senior indebtedness is paid in full in cash, property or securities, including by way of set-off, or other payment satisfactory to holders of senior indebtedness, then such payment or distribution will be held in trust for the benefit of holders of senior indebtedness or their representatives to the extent necessary to make payment in full in cash or payment satisfactory to the holders of senior indebtedness of all unpaid senior indebtedness.

In the event of our bankruptcy, dissolution or reorganization, holders of senior indebtedness may receive more, ratably, and holders of the subordinated debt securities may receive less, ratably, than our other creditors (including our trade creditors). This subordination will not prevent the occurrence of any event of default under the indenture.

As of June 30, 2002, we had senior indebtedness of $200.0 million funded under our senior secured credit facility. As of this date, we had unused availability of $37.5 million under our senior secured credit facility after giving effect to the $12.5 million undrawn letter of credit. The interest rate on the balance outstanding was 5.3%. We are not prohibited from incurring debt, including senior indebtedness, under the indenture. We may from time to time incur additional debt, including senior indebtedness.

We are obligated to pay reasonable compensation to the trustee and to indemnify the trustee against certain losses, liabilities or expenses incurred by the trustee in connection with its duties relating to the subordinated debt securities. The trustee s claims for these payments will generally be senior to those of noteholders in respect of all funds collected or held by the trustee.

Conversion or Exchange Rights

Debt securities may be convertible into or exchangeable for shares of our common stock. The terms and conditions of conversion or exchange will be stated in the applicable prospectus supplement. The terms will include, among others, the following:

- the conversion or exchange price,

- the conversion or exchange period,

- provisions regarding the convertibility or exchangeability of the debt securities, including who may convert or exchange,

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events requiring adjustment to the conversion or exchange price,

provisions affecting conversion or exchange in the event of our redemption of the debt securities, and

any anti-dilution provisions, if applicable.

No Individual Liability of Stockholders, Officers or Directors

The indentures provide that none of our past, present or future stockholders, officers or directors, or stockholders, officers or directors of any successor corporation, in their capacity as such shall have any individual liability for any of our obligations, covenants or agreements under the debt securities or the applicable indenture.

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PLAN OF DISTRIBUTION

We may sell the securities separately or together:

- through one or more underwriters or dealers in a public offering and sale by them,
- directly to investors, or
- through agents.

We may sell the securities from time to time in one or more transactions:

- at a fixed price or prices, which may be changed from time to time,
- at market prices prevailing at the time of sale,
- at prices related to such prevailing market prices, or
- at negotiated prices.

We will describe the method of distribution of the securities in the applicable prospectus supplement.

Underwriters, dealers or agents may receive compensation in the form of discounts, concessions or commissions from us or our purchasers (as their agents in connection with the sale of securities). These underwriters, dealers or agents may be considered to be underwriters under the Securities Act. As a result, discounts, commissions or profits on resale received by the underwriters, dealers or agents may be treated as underwriting discounts and commissions. The applicable prospectus supplement will identify any such underwriter, dealer or agent, and describe any compensation received by them from us.

Underwriters, dealers and agents may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments made by the underwriters, dealers and agents.

We may grant underwriters who participate in the distribution of securities an option to purchase additional securities to cover over-allotments, if any, in connection with the distribution.

All debt securities will be new issues of securities with no established trading market. Underwriters involved in the public offering and sale of debt securities may make a market in the debt securities. However, they are not obligated to make a market and may discontinue market making activity at any time. No assurance can be given as to the liquidity of the trading market for any debt securities.

Underwriters or agents and their associates may be customers of, engage in transactions with or perform services for us in the ordinary course of business.

LEGAL MATTERS

Proskauer Rose LLP, New York, New York, and Troutman Sanders LLP, Atlanta, Georgia, will pass on the validity of the issuance of the securities offered in this prospectus.

EXPERTS

The consolidated financial statements and schedule of Gray Communications Systems, Inc. as of December 31, 2000, and for each of the two years in the period ended December 31, 2000, incorporated by reference in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon also incorporated by reference herein and in the registration

statement. Such consolidated financial statements have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Gray Communications Systems, Inc. as of December 31, 2001, and for the year then ended, incorporated into this prospectus by reference to the Gray Communications Systems, Inc. Annual Report on Form 10-K for the year ended December 31, 2001 have

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been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Stations Holding Company, Inc. and subsidiaries as of December 31, 2000 and 2001, and for each of the three years in the period ended December 31, 2001 included in this prospectus have been audited by McGladrey & Pullen, LLP, independent auditors, as stated in their report appearing herein and are included in reliance upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC s public reference rooms at 450 Fifth Street, N.W., Washington, D.C., 20549 and also at its locations in New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public at the SEC s web site at http://www.sec.gov. Our class A common stock and class B common stock are listed on the New York Stock Exchange. Our reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the following documents:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2001;
- our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2002 and June 30, 2002;
- our Definitive Proxy Statement on Schedule 14A, filed on August 15, 2002;
- our Current Reports on Form 8-K, filed on July 17, 2002, July 30, 2002, September 4, 2002 and September 6, 2002; and
- any future filings that we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended.

You may request a copy of those filings, at no cost, by writing or telephoning us at the following:

Gray Television, Inc.

4370 Peachtree Road, NE
Atlanta, Georgia 30319
Attention: James C. Ryan
Telephone: (404) 504-9828

This prospectus is part of a registration statement we filed with the SEC. You should rely on only the information or representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

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INDEPENDENT AUDITOR S REPORT

To the Board of Directors

Stations Holding Company, Inc. (formerly Benedek Communications Corporation) and Subsidiaries
Hoffman Estates, Illinois

We have audited the accompanying consolidated balance sheets of Stations Holding Company, Inc. (Stations) and subsidiaries as of December 31, 2000 and 2001 and the related consolidated statements of operations, stockholders (deficit) and cash flows for the years ended December 31, 1999, 2000 and 2001. These financial statements are the responsibility of Stations management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stations and subsidiaries as of December 31, 2000 and 2001 and the results of their operations and their cash flows for the years ended December 31, 1999, 2000 and 2001, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Stations will continue as a going concern. As discussed in Note Q to the consolidated financial statements, Stations is currently in default under its Credit Facility and Discount Notes and has filed for relief under Chapter 11 of the Bankruptcy Code subsequent to year-end. This raises substantial doubt about Stations ability to continue as a going concern. Management s plans in regard to these matters are also described in Note Q. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note O to the consolidated financial statements, Stations has elected to early adopt the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

/s/ McGLADREY & PULLEN, LLP

Rockford, Illinois
March 15, 2002, except for the subsequent
events described in Note Q as to which
the date is June 4, 2002

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	**2001**
	(In thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,983	$ 3,503
Receivables		
Trade, less allowance for doubtful accounts of $799 and $834 for 2000 and 2001	30,108	29,912
Notes receivable-officers	15	720
Other	935	720
Current portion of program broadcast rights	5,917	6,394
Prepaid expenses	1,957	2,237
Deferred income taxes	1,138	946
Assets of station held for sale (Note B)		
Property and equipment		3,023
Intangible assets		15,477
Total current assets	44,053	62,932
Property and equipment (Note D)	74,911	67,874
Intangible assets (Note E)	381,914	330,875
Other assets		
Program broadcast rights, less current portion (Note H)	854	1,884
Deferred loan costs	4,627	3,487
Notes receivable-officers (Note C)	1,702	982
Other	201	203
	7,384	6,556
	$ 508,262	$ 468,237
LIABILITIES AND STOCKHOLDERS (DEFICIT)		
Current Liabilities		
Current maturities of notes payable	$ 1,460	$ 432,639
Current portion of program broadcast liabilities	9,188	9,421
Accounts payable and accrued expenses (Note I)	12,449	23,061
Deferred revenue	579	580
Total current liabilities	23,676	465,701
Long-Term Obligations		
Notes payable (Note F, G)	431,482	4,733
Program broadcast liabilities (Note H)	329	2,006
Deferred revenue	1,877	1,325
Deferred income taxes (Note K)	51,065	40,212

	484,753	48,276
Senior exchangeable preferred stock, liquidation Preference, 2000-$134,721 and 2001-$150,895 (Note F)	139,636	157,845
Seller junior discount preferred stock, liquidation preference, 2000-$64,426 and 2001-$73,296 (Note F)	65,928	78,905
Commitments (Note H, J, P, Q)		
Stockholders (Deficit) (Note C, F, L) Common stock, class A		
Common stock, class B	74	74
Additional paid-in capital	(66,413)	(68,605)
Accumulated deficit	(138,733)	(213,260)
Stockholder s note receivable (Note C)	(659)	(699)
	(205,731)	(282,490)
	$ 508,262	$ 468,237

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	1999	**2000**	**2001**
	(In thousands, except share and per share data)		
Net revenues	$ 99,432	$ 116,687	$ 107,561
Operating expenses:			
Selling, technical and program expenses	40,247	48,078	48,696
General and administrative	14,907	15,857	15,311
Depreciation and amortization (Note E)	17,442	19,711	21,901
Corporate	4,510	5,590	5,946
	77,106	89,236	91,854
Net gain on sale of stations (Note B & E)	6,403	61,406	
Operating income	28,729	88,857	15,707
Financial income (expense):			
Interest expense: (Note A)			
Cash interest	(20,901)	(23,564)	(33,350)
Other interest	(19,040)	(20,943)	(10,011)
	(39,941)	(44,507)	(43,361)
Interest income	200	564	159
	(39,741)	(43,943)	(43,202)
Income (loss) from continuing operations before income tax and extraordinary item	(11,012)	44,914	(27,495)
Income tax benefit (expense)	(406)	(29,199)	10,165
Income (loss) from continuing operations	(11,418)	15,715	(17,330)
Discontinued Operations (Note O & Q):			
(Loss) from operations of discontinued stations	(6,142)	(229)	(29,826)
Income tax benefit (expense)	1,783	(652)	1,741
(Loss) from discontinued operations	(4,359)	(881)	(28,085)
Income (loss) before extraordinary item	(15,777)	14,834	(45,415)
Extraordinary item, gain (loss) on early extinguishment of debt net of applicable income taxes of $8,340 and $(628) in 1999 and 2000 (Note G)	(12,510)	942	
Net income (loss)	(28,287)	15,776	(45,415)
Preferred stock dividends and accretion	(18,987)	(23,933)	(31,186)

Net (loss) applicable to common stock	$ (47,274)	$ (8,157)	$ (76,601)
Basic and diluted (loss) per common share:			
(Loss) from continuing operations	$ (4.11)	$ (1.11)	$ (6.56)
(Loss) from discontinued operations	(0.59)	(0.12)	(3.79)
Extraordinary item	(1.69)	0.13	
(Loss) per common share	$ (6.39)	$ (1.10)	$ (10.35)
Weighted-average common shares outstanding	7,400,000	7,400,000	7,400,000

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS (DEFICIT)

Years Ended December 31, 1999, 2000 and 2001

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Stockholder s Note Receivable	Total
			(In thousands)		
Balance at December 31, 1998.	$ 74	$ (59,549)	$ (87,200)	$ (588)	$ (147,263)
Accretion to senior exchangeable preferred stock (Note F)		(1,823)			(1,823)
Dividends on preferred stock			(17,164)		(17,164)
Repurchase of initial warrants		(2,957)			(2,957)
Accrued interest on note receivable		33		(33)	
Net (loss)			(28,287)		(28,287)
Balance at December 31, 1999.	$ 74	$ (64,296)	$ (132,651)	$ (621)	$ (197,494)
Accretion to senior exchangeable preferred stock (Note F)		(2,075)			(2,075)
Dividends on preferred stock			(21,858)		(21,858)
Repurchase of initial warrants		(80)			(80)
Accrued interest on note receivable		38		(38)	
Net income			15,776		15,776
Balance at December 31, 2000.	$ 74	$ (66,413)	$ (138,733)	$ (659)	$ (205,731)
Accretion to senior exchangeable preferred stock (Note F)		(2,074)			(2,074)
Dividends on preferred stock			(29,112)		(29,112)
Repurchase of initial warrants		(158)			(158)
Accrued interest on note receivable		40		(40)	
Net (loss)			(45,415)		(45,415)
Balance at December 31, 2001.	$ 74	$ (68,605)	$ (213,260)	$ (699)	$ (282,490)

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	1999	2000	2001
		(In thousands)	
Cash flows from operating activities			
Net income (loss)	$ (28,287)	$ 15,776	$ (45,415)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of program broadcast rights	8,127	9,015	9,276
Depreciation and amortization	15,695	16,002	17,237
Amortization and writedown of intangibles and deferred loan costs	14,609	12,574	29,840
Amortization of note discount	17,227	18,887	7,124
Deferred income taxes	(10,368)	27,721	(10,661)
Net (gain) on sale of stations	(6,181)	(61,406)	
Loss on writedown of station held for sale			6,880
(Gain) loss on early extinguishment of debt	20,850	(1,570)	
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Receivables	(1,504)	(2,441)	411
Prepaid expenses and other	(356)	60	(280)
Payments on program broadcast liabilities	(7,455)	(8,691)	(8,873)
Accounts payable and accrued expenses	(2,482)	793	10,216
Deferred revenue	(573)	(511)	(511)
Net cash provided by operating activities	19,302	26,209	15,244
Cash flows from investing activities			
Purchase of property and equipment	(7,923)	(9,814)	(11,073)
Payment for acquisition of stations	(9,359)	(8,584)	
Deposit on and costs of acquisitions	(10,294)		
Proceeds from sale of stations	56	7,585	
Deposit on sale of station, net of fees paid			235
Disbursements on notes receivable-officers, net of payments	(720)	(722)	15
Other, net	(51)	276	(12)
Net cash (used in) investing activities	(28,291)	(11,259)	(10,835)
Cash flows from financing activities			
Principal payments on notes payable	(259,453)	(3,806)	(2,231)
Redemption of discount notes	(2,591)	(9,820)	
Net (payments) borrowings on long-term revolver	58,500		(2,500)
Proceeds from long-term borrowing	220,000		
Repurchase of initial warrants	(2,957)	(80)	(158)
Payment of debt and senior preferred stock acquisition costs	(5,523)	(539)	
Net cash provided by (used in) financing activities	7,976	(14,245)	(4,889)

Increase (decrease) in cash and cash equivalents	(1,013)	705	(480)
Cash and cash equivalents:			
Beginning	4,291	3,278	3,983
Ending	$ 3,278	$ 3,983	$ 3,503

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Years Ended December 31,		
	1999	**2000**	**2001**
		(In thousands)	
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest	$ 30,307	$ 26,395	$ 25,242
Cash payments (receipts) for income taxes	679	2,672	(1,524)
Supplemental Schedule of Noncash Investing and Financing Activities:			
Acquisition of program broadcast rights	$ 8,186	$ 8,100	$ 10,783
Purchase of equipment on accounts payable	500	419	57
Notes payable incurred for purchase of property and equipment	4,140	1,672	2,037
Equipment acquired by barter transactions	221	252	523
Dividends accrued on preferred stock	17,164	21,858	29,112
Accrued interest on note receivable stockholder added to additional paid-in capital	33	38	40
Accretion to senior preferred stock	1,823	2,075	2,074
Acquisition of stations:			
Property and equipment acquired at fair market value	$ 6,238	$ 25,693	$
Intangible assets acquired	27,376	117,426	
Program broadcast rights acquired	1,115	931	
Program broadcast liabilities assumed	(1,115)	(868)	
Other, net	17	(1,343)	
	33,631	141,839	
Less: Fair value of assets swapped	(24,272)	(122,961)	
Cash purchase price, including fees paid	9,359	18,878	
Less: Deposits and costs paid in prior year		(10,294)	
Payment for acquisition of stations	$ 9,359	$ 8,584	$
Sale of stations:			
Property and equipment sold	$ 3,076	$ 8,876	$
Intangible assets sold	8,101	60,258	
Program broadcast rights sold	136	358	
Program broadcast liabilities transferred	(145)	(345)	
Other, net		(74)	
	11,168	69,073	
Gain recognized on sale of stations	13,101	61,406	
	24,269	130,479	
Less: Fair value of assets swapped	(24,272)	(122,961)	
Fees paid on sales, prior year	59	67	
Proceeds from sale of station net of fees paid	$ 56	$ 7,585	$

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Note A) Nature of Business, Basis of Presentation and Summary of Significant Accounting Policies

Nature of Business

Stations Holding Company, Inc. and its subsidiaries (Stations), formerly known as Benedek Communications Corporation, is a holding company with minimal operations other than from its wholly owned subsidiary, Benedek Broadcasting Corporation (Benedek). Benedek owns and operates twenty-three television stations located throughout the United States. Stations revenues are derived primarily from the sale of advertising time and, to a modest extent from compensation paid by the networks for broadcasting network programming and barter transactions for goods and services. Stations sells commercial time during the programs to national, regional and local advertisers. The networks also sell commercial time during the programs to national advertisers. Credit arrangements are determined on an individual customer basis. Segment information is not presented since all of Stations revenue is attributed to a single reportable segment.

Basis of Presentation

The consolidated financial statements include the accounts of Stations and its wholly owned subsidiary, Benedek. Benedek has three wholly owned subsidiaries, Benedek License Corporation, Benedek Cable, Inc. and Benedek Interactive Media, LLC (the Benedek Subsidiaries). All significant intercompany items and transactions have been eliminated in consolidation.

Significant Accounting Policies

(1) Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash equivalents and concentration

Stations considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At various times during the periods, Stations had cash and cash equivalents on deposit with a financial institution in excess of federal depository insurance limits. Stations has not experienced any credit losses on these deposits.

(3) Revenues

Revenue related to the sale of advertising is recognized at the time of broadcast. Net revenues are shown net of agency and national representatives commissions.

Deferred revenues primarily relate to compensation paid by the network at the inception of the network affiliation agreement. This revenue is being recognized prorata until 2005, on a straight-line method.

(4) Barter transactions

Revenue from barter transactions (advertising provided in exchange for goods and services) is recognized as income when advertisements are broadcast and merchandise or services received are charged to expense (or capitalized as appropriate) when received or used. The transactions are recorded at the fair

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

market value of the asset or service received. For the years ended December 31, 1999, 2000 and 2001, revenues from barter transactions totaled approximately $6,377,000, $6,182,000 and $6,111,000, respectively.

(5) Program broadcast rights and liabilities

Program broadcast rights represent rights for the telecast of feature length motion pictures, series produced for television and other films, and are presented at the lower of amortized cost or net realizable value. Each agreement is recorded as an asset and liability when the license period begins and the program is available for its first showing. Program broadcast rights are amortized on a straight-line method over the life of the contract, which is included in selling, technical and program expenses. The agreements are classified between current and long-term assets according to the estimated time of future usage. The related liability is classified between current and long-term on the basis of the payment terms.

(6) Deferred loan and acquisition costs

Deferred loan costs are amounts incurred in connection with long-term financing. The costs are amortized on the interest method over the terms of the related debt security. Costs incurred in connection with long-term financing which is not consummated are expensed at the point in time when the negotiation on the financing ceases. Costs incurred in connection with issuances of preferred stock are included in stockholders deficit as a permanent reduction of additional paid-in capital.

Acquisition costs are amounts incurred in connection with acquiring additional television stations. Costs incurred in connection with acquisitions, which are not consummated, are expensed at the point in time when the negotiation on the acquisition ceases. The acquisition costs related to successful acquisitions are treated as part of the purchase price and are allocated to the assets purchased.

(7) Property and equipment and intangible assets

(a) Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated ranges of useful lives:

	Years
Buildings and improvements	5-40
Towers	5-12
Transmission equipment	3-10
Other equipment	1-5

Gains and losses on the disposition of property and equipment in the normal course of business are insignificant and are included in depreciation and amortization on the consolidated statement of operations.

(b) Intangible assets, which include FCC licenses, network affiliation agreements and goodwill, have been recorded at cost and are amortized over 40 years using the straight-line method.

(c) Stations reviews its property and equipment and intangibles annually to determine potential impairment by comparing the carrying value of the assets with the undiscounted anticipated future cash flows of the related property before interest charges. If the future cash flows are less than the carrying value, Stations would obtain an appraisal or discount the future cash flows to determine fair value, and adjust the carrying value of the assets to the estimated fair value if the fair value is less than the carrying value (Note E).

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Other interest expense

Other interest expense includes accrued interest added to long-term debt balances, deferred loan cost amortization and write offs (except deferred loan cost write offs related to extraordinary debt extinguishments), financing costs not consummated, and accretion of discounts.

(9) Income taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating losses and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stations and its subsidiaries file a consolidated federal income tax return.

(10) Employee Benefits

Stations has defined contribution plans covering all eligible employees. Stations contribution is at the discretion of the Board of Directors.

Stations self-insures for health benefits, which are provided to all full-time employees with specified periods of service. Insurance coverage is maintained by Stations for claims in excess of specific and annual aggregate limits.

Stations has elected to continue accounting for employee stock-based compensation under Accounting Principles Board Opinion No. 25.

(11) Earnings (loss) per common share

Basic per-share amounts are computed by dividing net income (loss) adjusted for preferred stock dividends declared and accretion (the numerator) by the weighted-average number of common shares outstanding (the denominator). Diluted per-share amounts assume the conversion, exercise or issuance of all potential common stock instruments unless the effect is to reduce the loss or increase the income per common share from continuing operations. Stations has no present dilutive per-share amounts, since the inclusion of the Initial Warrants (as defined) and stock options would have been anti-dilutive for the periods presented.

(12) Interest rate cap agreement and recently adopted accounting standard

Interest rate cap agreements are used to manage interest rate exposure by hedging certain liabilities. Income and expense are accrued under the terms of the agreement based on the expected settlement payments and are recorded as a component of interest income or expense.

Effective January 1, 2001, Stations adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS Nos. 137 and 138. The new accounting standards require all derivative instruments be recorded on the balance sheet at fair value. Changes in fair value of the derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether the derivative is designated as a fair value or cash flow hedge. The ineffective portion of all hedges is recognized in current period earnings. On adoption Stations only derivative instrument was an interest rate cap for which the fair value approximated the carrying value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Note B) Acquisition and Sale of Certain Television Stations

On December 30, 1998, Stations entered into an Asset Exchange Agreement with The Ackerley Group, Inc. (Ackerley) pursuant to which Stations exchanged the television broadcast assets of KCOY-TV, in Santa Maria, California, for the television broadcast assets of KKTV, Ackerley s station in Colorado Springs, Colorado (the 1999 Swap). Both KCOY-TV and KKTV are CBS affiliates. The exchange was completed on May 1, 1999, upon which Stations paid $9,000,000 to Ackerley as further consideration in accordance with the agreement.

The exchange was recorded as a separate sale and acquisition of stations, with the acquisition of KKTV accounted for under the purchase method of accounting. Accordingly, the results of the operations for KKTV are included in Stations consolidated financial statements since the date of acquisition, May 1, 1999. In addition, the parties entered into a time brokerage agreement for each station, in effect from January 1, 1999 until April 30, 1999. During the time brokerage period, the revenue and expenses of each station went to the account of the buyer, net of applicable time brokerage fees. The net time brokerage fee expense was $508,000 for the year ended December 31, 1999.

The total purchase price for KKTV was approximately $33,631,000, which consisted of the fair market value of the KCOY-TV assets of $24,272,000, a cash payment of $9,000,000, and fees and costs of the transaction of $359,000. The purchase price has been allocated to acquired assets and liabilities based on their relative fair values as of the closing date. The excess of the purchase price over the net assets received from the acquisition is being amortized on the straight-line method over a period of 40 years.

A gain of approximately $13,323,000 was recorded to reflect the sale of KCOY-TV. This gain consisted of the fair market value of the KCOY-TV assets of $24,272,000 less their book value of $10,732,000 and fees of $217,000.

During September 1999, a loss in the amount of approximately $222,000 was recorded to reflect the sale of KTVS-TV, Sterling, Colorado, which was a satellite operation of KGWN-TV, Cheyenne, Wyoming. Stations sold KTVS-TV since KTVS-TV is outside of the KGWN-TV designated market area. The loss is included in Loss from operations of discontinued stations in the consolidated statement of operations as KGWN-TV is one of the stations included in the Station Group to be sold. See (Note Q).

On November 19, 1999, Stations entered into an Asset Purchase Agreement with The Chronicle Publishing Company (Chronicle) and on December 10, 1999, Stations entered into an Asset Exchange Agreement with WGRC, Inc. (WGRC). Pursuant to these agreements, WGRC acquired the television broadcast assets of WOWT-TV and KAKE-TV, Chronicle s television stations in Omaha, Nebraska and Wichita, Kansas, respectively, and then immediately transferred the same to the Company in exchange for the television broadcast assets of WWLP-TV, Stations station in Springfield, Massachusetts (the 2000 Swap). The exchange was completed on March 31, 2000, upon which Stations paid $18,000,000 to WGRC as further consideration in accordance with the agreements. At December 31, 1999, Stations had deposited $10,000,000 in an escrow account related to this transaction. The remaining $8,000,000 was funded from the proceeds of the sale of KOSA-TV discussed below.

The exchange was recorded as a separate sale and acquisition of stations, with the acquisition of KAKE-TV and WOWT-TV accounted for under the purchase method of accounting. Accordingly, the results of the operations for KAKE-TV and WOWT-TV are included in Stations consolidated financial statements since the date of acquisition, March 31, 2000.

The total purchase price and costs of the acquisition of KAKE-TV and WOWT-TV was approximately $141,839,000, which consisted of the fair market value of the WWLP-TV assets of $122,961,000, a cash payment of $18,000,000 and fees and costs of the transaction of approximately

STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$878,000. The purchase price has been allocated to acquired assets and liabilities based on their relative fair market values as of the closing date.

A gain of approximately $61,144,000 was recorded to reflect the disposition of WWLP-TV. The gain consisted of the fair market value of the WWLP-TV assets of $122,961,000 less their book value of $61,431,000 and fees of $386,000.

On December 15, 1999, Stations entered into an Asset Purchase Agreement with ICA Broadcasting I, Ltd. (ICA) pursuant to which Stations sold the television broadcast assets of KOSA-TV, in Odessa, Texas to ICA for a cash payment of $8,000,000 on March 21, 2000 (the 2000 Sale). A gain of approximately $262,000 was recorded on the sale of KOSA-TV, which consisted of the excess of the $8,000,000 sale price over the book value of the assets of $7,642,000 less fees of the transaction. Stations wrote down the KOSA-TV assets during 1999 by $6,920,000, as a result of the signing of the Asset Purchase Agreement with ICA, which contemplated the sale.

The unaudited pro forma results of operations and earnings per share for the years ended December 31, 1999 and 2000, assuming the 1999 Swap, 2000 Swap and 2000 Sale had occurred on January 1, 1999 and 2000, are presented in the table below.

	Year Ended December 31,	
	1999	2000
	(In thousands)	
Net revenue	$ 112,381	$ 120,155
(Loss) before extraordinary item	(19,308)	(13,262)
Extraordinary item	(12,510)	942
Net (loss)	$ (31,818)	$ (12,320)
Basic and diluted (loss) per common share:		
(Loss) before extraordinary item	$ (5.18)	$ (5.03)
Extraordinary item	(1.69)	0.13
(Loss) per common share	$ (6.87)	$ (4.90)

The pro forma results of operations and earnings per share for the 1999 Swap, 2000 Swap and 2000 Sale for the years ended December 31, 1999 and 2000 refer to the operating results of KKTV, KAKE-TV and WOWT-TV as if such stations were owned, and to KCOY-TV, WWLP-TV and KOSA-TV as if such stations were sold, by Stations on January 1, 1999 and 2000, with pro forma adjustments only for depreciation and amortization, interest and income taxes. The pro forma results do not include the gain on the disposition of KCOY-TV, WWLP-TV and KOSA-TV, nor the write down of KOSA-TV s assets in contemplation of the sale, for either period presented.

The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of the operations of the stations.

Sale of Station

On November 26, 2001, Stations entered into an Asset Purchase Agreement with West Virginia Media Holdings, LLC (West Virginia Media) pursuant to which Stations will sell the television broadcast assets of WTRF-TV, in Wheeling, West Virginia to West Virginia Media for $18,500,000. Upon the execution of the agreement, Stations received a $350,000 option payment from West Virginia which will reduce the final purchase price. Stations recorded a lower of cost or market adjustment of approximately $6,880,000 in 2001 to write down the assets of WTRF-TV to the sales price. Because Stations has elected to early adopt the provisions of SFAS No. 144, Accounting for the Impairment or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Disposal of Long-Lived Assets, as discussed in [Note O], this lower of cost or market adjustment is included in Loss from operations of discontinued stations. The assets of WTRF-TV have been shown on the accompanying balance sheet as Assets of station held for sale as of December 31, 2001. It is anticipated that the sale will be completed in the second quarter of 2002. See (Note Q).

(Note C) Related Party Transactions and 1999 Stock Option Plan

Stock Option Agreements

In 1998, a key employee exercised all outstanding options granted to him under a stock-based compensation plan for the employee. Stations loaned the key employee the funds necessary to pay for the shares under a note for $555,000 which bears interest at 5.93% and is due on December 31, 2007. This recourse note, which is a personal obligation of the employee, is collateralized by the stock, which was issued upon exercise of the option, and is classified as a negative equity account in the accompanying consolidated balance sheets.

During 2001, Stations amended the above-mentioned key employee s employment agreement whereby he will receive compensation sufficient to satisfy the obligation and any related income tax liability, provided that he remains an active employee through the earlier of death, disability, termination by Stations without cause, or December 31, 2003. This obligation is being accrued ratably through December 31, 2003. In connection therewith, Stations recognized expense of approximately $107,000 for the year ended December 31, 2001.

In December 1998, Stations board of directors adopted the 1999 Stock Option Plan (the Plan) whereby from time to time on or before December 31, 2008, options to purchase shares of class B common stock may be granted to employees, directors or consultants and advisors of Stations and its subsidiaries. The aggregate number of shares of common stock, which may be purchased pursuant to options granted at any time under the Plan, shall not exceed 240,000. The purchase price per share shall be the fair market value, as defined by the Plan, or an amount determined by the board. If options are granted to an employee who, at the time of the grant, owns more than ten percent of the voting stock of Stations, the purchase price per share shall be at least one hundred and ten percent of the fair market value, as defined by the Plan. The vesting period of options granted under the Plan are determined by the board. The maximum term options may be outstanding under the plan is ten years.

A summary of the status of the Plan at December 31, 1999, 2000 and 2001 and changes during the years then ended is as follows:

	1999		2000		2001	
	Shares	Wgt. Avg. Exercise Price	Shares	Wgt. Avg. Exercise Price	Shares	Wgt. Avg. Exercise Price
Outstanding at beginning of year		$	165,000	$15.00	60,000	$15.00
Granted	165,000	15.00			75,000	27.00
Exercised						
Forfeited			(105,000)	15.00	(15,000)	15.00
Expired						
Outstanding at end of year	165,000	$15.00	60,000	$15.00	120,000	$22.50
Exercisable at end of year		$	6,000	$15.00	10,000	$16.20

The remaining contractual life of the options outstanding at December 31, 2001 is seven years for 45,000 options and nine years for 75,000 options.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As permitted under generally accepted accounting principles, Stations accounts for the employee options under the provisions of APB Opinion No. 25 and its related interpretations. Accordingly, no compensation cost has been recognized for the grant of the options. Had compensation cost been determined based on the fair value method prescribed in FASB Statement No. 123, the reported net income (loss) and basic and diluted (loss) per common share for the years ended December 31, 1999, 2000 and 2001 would have been $(28,395) and $(6.40), $15,805 and $(1.10), and $(45,432) and $(10.35), respectively. In determining the pro forma amounts for the options granted in 1999, the fair value per share for each option was estimated to be $6.61 at the grant date by using the Black-Scholes option-pricing model with the following assumptions: no dividends will be paid on the class B common stock; a risk-free interest rate of 4.44%; an expected life of five years; and an expected price volatility of 43.0%. In determining the pro forma amounts for the options granted in 2001, the fair value per share for each option was estimated to be $0.97 at the grant date by using the Black-Scholes option-pricing model with the following assumptions: no dividends will be paid on the class B common stock; a risk-free interest rate of 4.91%; an expected life of six years; and an expected price volatility of 64.0%.

Director Fees

Stations paid fees of approximately $871,000, $896,000, and $974,000 during the years ended December 31, 1999, 2000 and 2001, respectively, to the law firm of Shack Siegel Katz Flaherty & Goodman, P.C. A partner of Shack Siegel Katz Flaherty & Goodman, P.C. serves as a director to Stations.

Notes Receivable-Officers

During 1999 and 2000 Stations issued loans to various officers of Stations for which the total amounts receivable as of December 31, 2000 and 2001 were $1,717,000 and $1,702,000, respectively. These notes bear interest at the applicable federal rates in effect at the time of issuance and have due dates ranging from May 1, 2002 to December 31, 2003. These notes are personal obligations of the applicable officer and have been issued with recourse.

On March 1, 2002, the foregoing notes due from one officer were consolidated into a single note in the amount of $1,635,000, representing the aggregate outstanding principal and interest due to Stations from the officer. The maturity of such loans was extended until the earlier of June 30, 2002 or the date the employee sells his securities in Stations. The interest is payable at maturity and accrues at the applicable federal rate in effect on March 1, 2002.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Note D) Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2000	2001
	(In thousands)	
Land and improvements	$ 7,182	$ 7,175
Buildings and improvements	35,083	35,126
Towers	17,493	16,859
Transmission and studio equipment	81,179	81,393
Office equipment	12,101	13,604
Transportation equipment	4,308	4,770
Construction in progress	6,167	6,652
	163,513	165,579
Less accumulated depreciation and amortization	88,602	97,705
	$ 74,911	$ 67,874

(Note E) Intangible Assets

Intangible assets consist of the following:

	December 31,	
	2000	2001
	(In thousands)	
Goodwill	$115,797	$ 83,210
FCC licenses	173,882	163,766
Network affiliations	90,874	82,738
Other	1,361	1,161
	$381,914	$330,875

Intangible assets are recorded net of accumulated amortization of $54,830,000 and $79,748,000 as of December 31, 2000 and 2001, respectively. In addition to the $6,920,000 lower of cost or market adjustment on KOSA-TV as discussed in (Note B), during 1999 Stations also wrote down certain stations goodwill and FCC licenses which were determined to have been impaired based on Stations estimate of fair value using discounted future cash flows. The writedown of approximately $2,762,000 is included in Loss from operations of discontinued stations on the consolidated statement of operations as the related stations are part of the Station Group to be sold as discussed in (Note Q).

In addition to the $6,880,000 lower of cost or market adjustment on WTRF-TV as discussed in (Note B), during 2001 Stations also wrote down a certain station s goodwill and network affiliation which were determined to have been impaired based on Stations estimate of fair value using discounted future cash flows. The writedown of approximately $17,673,000 is included in Loss from operations of discontinued stations

on the consolidated statement of operations as the related station is part of the Station Group to be sold as discussed in (Note Q).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Note F) Redeemable Equity Securities and Discount Notes

Senior Preferred Stock

In 1996, Stations sold 60,000 Units in a private placement, which generated proceeds of $60,000,000. Each Unit consisted of (i) ten shares of 15% Exchangeable Redeemable Senior Preferred Stock due 2007 (the Original Senior Preferred Stock), (ii) ten initial warrants to purchase class A common stock of Stations with an expiration date of July 1, 2007 (the Initial Warrants) and (iii) 14.8 contingent warrants to purchase class A common stock of Stations.

The Original Senior Preferred Stock and the contingent warrants were redeemed in June 1998 from the proceeds of Stations May 14, 1998 issuance of 100,000 shares of 11.5% Senior Exchangeable Preferred Stock (the Senior Preferred Stock), with an initial liquidation preference equal to proceeds received of $100,000,000.

Dividends on the Senior Preferred Stock are cumulative and payable quarterly commencing August 15, 1998 at a rate of 11.5% of the then effective liquidation preference per share. Stations, at its option, may pay dividends on any dividend payment date occurring on or before May 15, 2003 either in cash or by adding such dividends to the then effective liquidation preference. Stations has been adding the dividends to the liquidation preference from the issuance date through December 31, 2001. The Senior Preferred Stock is not redeemable until May 15, 2003 at which time cash dividends are required to be paid at a rate of 11.5% of the then effective liquidation preference per share. Thereafter, Stations has the option to redeem these shares in whole or in part at predetermined redemption prices prior to May 15, 2008 when they are due. The Senior Preferred Stock is exchangeable into debentures at Stations option, subject to certain conditions, in whole on any scheduled dividend payment date. The Senior Preferred Stock contains various restrictive covenants relating to limitations on dividends, transactions with affiliates, further issuance of debt, and the sales of assets, among other things.

Since it was originally management s intention to redeem the Senior Preferred Stock prior to the date that cash dividends are required to be paid, the amount of the estimated redemption premium payable had been accreted as a constructive distribution over five years since May 1998. During the fourth quarter of 2001, management determined that the redemption of the Senior Preferred Stock was unlikely to occur based on Stations financial position as described in (Note Q). As a result, accretion has been discontinued on the redemption premium for future periods.

Junior Preferred Stock

In 1996, Stations issued 450,000 shares of Seller Junior Discount Preferred Stock due July 1, 2008 (the Junior Preferred Stock) with an aggregate liquidation preference equal to the proceeds of $45,000,000. Dividends are payable to the holders of the Junior Preferred Stock at 7.92% per annum, cumulative until the fifth anniversary of the issuance thereof and thereafter at increasing rates up to 18%. The dividends on the Junior Preferred Stock are cumulative and were being accrued at the initial rate of 7.92% through September 30, 2000, since it was Stations intention to redeem the Junior Preferred Stock prior to the fifth anniversary. During October 2000, Stations determined that redemption of the Junior Preferred Stock would most likely occur subsequent to the fifth anniversary. Accordingly, Stations began to accrue dividends in October 2000 under the effective cost method on a prospective basis based on the carrying value at October 1, 2000 to the liquidation preference at July 1, 2008. The effect of this change was to increase the loss per common share for the year ended December 31, 2000 by $(0.20). The change had no effect on income before extraordinary item or net income. Prior to June 5, 2001, dividend payments on the Junior Preferred Stock were not permitted to be made in cash and instead were added automatically to the liquidation preference and as a result are deemed paid in full.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Junior Preferred Stock is subject to mandatory redemption in whole on July 1, 2008 and Stations has the option to redeem these shares in whole or in part at a price equal to the sum of the liquidation value per share plus an amount equal to all accumulated and unpaid dividends per share to the date of redemption.

The following table summarizes these activities from December 31, 1999 through December 31, 2001 as follows:

	Senior Preferred Stock	Junior Preferred Stock
	(In thousands)	
Balance at December 31, 1999	$122,092	$59,539
Accrued dividends	15,469	6,389
Accretion of redemption prepayment premium	2,075	
Balance at December 31, 2000	$139,636	$65,928
Accrued dividends	16,135	12,977
Accretion of redemption prepayment premium	2,074	
Balance at December 31, 2001	$157,845	$78,905

Initial Warrants

At December 31, 2000 and 2001, there were 345,000 and 310,000 of outstanding Initial Warrants, respectively, which expire July 1, 2007. Each Initial Warrant entitles the holder thereof to purchase one share of class A common stock at an exercise price of $0.01 per share. The value of the Initial Warrants at the date of issuance was $9,000,000, which was allocated to paid-in capital. During September 1999, December 2000 and January 2001, Stations redeemed 185,000, 20,000, and 35,000 of the outstanding Initial Warrants for $2,957,000, $80,000 and $158,000, respectively.

Discount Notes

In June 1996, Stations issued Senior Subordinated Discount Notes due 2006 (the Discount Notes) in the principal amount of $170,000,000. These Discount Notes were issued at a discount of $79,822,000, which generated gross proceeds of $90,178,000. The Discount Notes mature on May 15, 2006 and yield 13.25% per annum with no cash interest accruing prior to May 15, 2001. On May 15, 2001, cash interest began to accrue until maturity payable semiannually, commencing November 15, 2001. The Discount Notes are redeemable at the option of Stations, in whole or in part, at predetermined redemption prices and under specified conditions. The Discount Notes are subordinated to all other senior debt of Stations. The Discount Notes contain various restrictive covenants. The Discount Notes were exchanged for Discount Notes registered with the Securities and Exchange Commission pursuant to a registration statement declared effective in October 1996. At December 31, 2000 and 2001 the accreted value of the notes was $147,546,000 and $154,670,000, respectively. The outstanding face value at December 31, 2000 and 2001 was $154,670,000.

Stations is currently in default on the Discount Notes as Stations was unable to make the November 15, 2001 interest payment as Stations senior lenders under the Credit Facility blocked the payment of interest due on the Discount Notes as discussed in (Note Q). The entire outstanding balance of the Discount Notes of $154,670,000 has been classified as a current liability as a result of the default and related uncertainty.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Since Stations derives all of its operating income and cash flow from Benedek Stations ability to pay its obligations, including (i) interest on and principal of the Discount Notes, (ii) redemption of and cash dividends on the Senior Preferred Stock and (iii) redemption of and cash dividends on the Junior Preferred Stock, will be dependent primarily upon receiving dividends and other payments or advances from Benedek. Benedek is a separate and distinct legal entity and has no legal obligation, contingent or otherwise, to pay any amount to Stations or to make funds available to Stations for debt service or any other obligation.

(Note G) Long Term Debt

(1) Notes payable

Term Loans and Revolver

On May 20, 1999, Stations borrowed $275,000,000 against a credit facility (the Credit Facility), which was amended as of June 18, 1999 and March 22, 2000, with an aggregate borrowing limit of $310,000,000. The proceeds were used by Stations to finance the tender offer of its 11.875% Senior Secured Notes due 2005 (the Senior Secured Notes) and extinguish the then existing credit agreement.

The Credit Facility includes a $220,000,000 term loan (the Term Loan) and a $90,000,000 revolver (the Revolver) of which no additional borrowings were available at December 31, 2001 due to covenant violations discussed below. The Term Loan bears interest, at Stations option, at a base rate plus 2.25% or at a LIBOR rate plus 3.25%. The Revolver bears interest, at Stations option, at a base rate plus 1.00% to 1.75% or at a LIBOR rate plus 2.00% to 2.75%. The margins above the base rate and the LIBOR rate at which the Revolver bears interest is reduced when certain leverage ratios decrease. The interest rate on the Term Loan was 7.0% and the interest rate on the Revolver was 6.5% at December 31, 2001. In addition, Stations has accrued for an additional 2.0% interest on the Term Loan and Revolver since September 17, 2001 due to a default interest rate provision which became effective when a forebearance agreement with the lenders expired. The unused portion of the Revolver is subject to a commitment fee ranging from 0.75% per annum to 0.375% per annum based on certain leverage ratios.

Stations is required to make scheduled payments on the Term Loan beginning in 2002 to maturity in 2007. In addition, Stations is required to make prepayments on the Term Loan and the Revolver under certain circumstances, including upon the sale of certain assets and the issuance of certain debt or equity securities. Beginning in 2002, Stations is required to make prepayments on the Term Loan and the Revolver in an amount equal to 50% of excess cash flow, which will require a payment of approximately $2,664,000 on or prior to April 30, 2002.

The commitment under the Revolver will be permanently reduced over the period from June 2002 to maturity in 2007. In addition, the commitment under the Revolver will be permanently reduced in certain circumstances including upon the sale of certain assets and the issuance of certain debt or equity securities and with excess cash flow. Stations has the right to pay down the Revolver without penalty in increments of $1,000,000.

The Credit Facility contains certain financial covenants, including, but not limited to, covenants related to interest coverage, total and senior leverage ratios and fixed charge ratio. In addition, the Credit Facility contains other affirmative and negative covenants relating to, among other things, liens, payments on other debt, restricted junior payments (excluding distributions from Benedek to Stations), transactions with affiliates, mergers and acquisitions, sales of assets, guarantees and investments. The Credit Facility contains customary events of default for highly-leveraged financings, including certain changes in ownership or control of Stations. The Credit Facility is secured by Stations present and future property and assets and the common stock of Benedek License Corporation.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stations is currently in default under the Credit Facility due to Stations being in violation of certain covenants since June 30, 2001. At December 31, 2001 Stations was not in compliance with the senior debt ratio, total leverage ratio and interest coverage ratio under the Credit Facility. The non-compliance results from the decline in operating results during 2001. The entire outstanding balance under the Credit Facility of $276,000,000 has been classified as a current liability as a result of the default and related uncertainty.

Other Notes

Other notes payable consist of multiple financing agreements requiring monthly payments including interest from 0.9% to 11.6% on notes maturing from 2002 through 2021 that are collateralized by various assets of Stations.

Notes payable consist of the following:

	December 31,	
	2000	**2001**
	(In thousands)	
Revolver	$ 58,500	$ 56,000
Term Loan	220,000	220,000
Discount Notes see (Note F) for terms	147,546	154,670
Other	6,896	6,702
	432,942	437,372
Less current maturities	1,460	432,639
	$431,482	$ 4,733

At December 31, 2001, the notes provide for annual reductions as follows:

Year Ending December 31,	(In thousands)
2002	$432,639
2003	858
2004	638
2005	491
2006	264
Thereafter	2,482
	$437,372

Other notes include Stations lease of its premises in Harrisonburg, Virginia under a capital lease. Stations has the option to purchase the premises upon written notice to the landlord at any time during the 20-year term, which expires April 27, 2018. At December 31, 2001, the option purchase price was $1,415,000.

(2) Interest Rate Cap

During September 2001, in accordance with certain covenants of the Credit Facility, Stations entered into an interest rate cap agreement which matures in September 2003, to reduce the impact of changes in interest rates on its floating-rate long-term debt. That agreement effectively entitles Stations to receive from a financial institution the amount, if any, by which the British Bankers Association interest settlement rates (settlement rate) for U.S. dollar deposits exceeds 6.00% on a notional amount totaling $60,000,000 subject to an amortization schedule. As of December 31, 2001, the settlement rate was 1.90%.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The $95,000 premium paid for this interest rate cap is being amortized ratably to interest expense over the 24-month term of the cap, and is reported as an other asset in the accompanying consolidated balance sheets. The carrying value of the interest rate cap at December 31, 2001 materially approximates fair value. Although Stations is exposed to credit loss in the event of nonperformance by the counterparty on the interest rate cap, management does not expect nonperformance by the counterparty.

(3) Gain (Loss) on Extinguishment of Debt

On April 16, 1999, Stations commenced a tender offer and consent solicitation (the Offer) for any and all of the $135,000,000 in outstanding principal amount of the Senior Secured Notes. The total consideration for each of $1,000 principal of Senior Secured Notes was $1,105.78 which consisted of the Offer price per $1,000 principal of Senior Secured Notes of $1,075.78 and a consent payment of $30 per $1,000 principal amount of the Senior Secured Notes.

On May 20, 1999, Stations redeemed all of the outstanding Senior Secured Notes. The offer was financed through the Credit Facility. A total of $12,510,000 (net of $8,340,000 of applicable income taxes) was reflected as a loss on the early extinguishment of debt which was comprised of prepayment premiums, consent payments, expenses of the transaction and a write-off of unamortized fees associated with the Senior Secured Notes and the then existing credit agreement.

During July 1999, Stations retired a portion of its Discount Notes with a face amount of $3,000,000. The Discount Notes had an accreted value of $2,371,000 and were purchased for a total of $2,591,000, which includes a premium payment for early retirement. The premium payment, totaling $220,000, is included in other interest expense.

During 2000, Stations retired portions of its Discount Notes with a total face amount of $12,330,000. The Discount Notes had an accreted value of $11,390,000 and were purchased for a total of $9,820,000. A total of $942,000 (net of $628,000 of applicable income taxes) was reflected as a gain on the early extinguishment of debt.

(Note H) Program Broadcast Rights and Liabilities

Program broadcast rights and program broadcast liabilities consist of the following:

	Program Broadcast Rights	Program Broadcast Liabilities
	(In thousands)	
Balance at December 31, 1999	$ 7,114	$ 9,586
Contracts acquired	8,100	8,100
Net addition due to station swap (Note B)	572	522
Amortization	(9,015)	
Payments		(8,691)
Balance at December 31, 2000	6,771	9,517
Contracts acquired	10,783	10,783
Amortization	(9,276)	
Payments		(8,873)
Balance at December 31, 2001	$ 8,278	$11,427

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The current maturities of program broadcast liabilities consist of the following:

	December 31,	
	2000	2001
	(In thousands)	
Program contracts, due in varying installments	$ 9,517	$11,427
Less current maturities	(9,188)	(9,421)
Long-term portion	$ 329	$ 2,006

The maturities of the contracts are as follows at December 31, 2001:

Year Ending December 31,	(In thousands)
2002	$ 9,421
2003	877
2004	563
2005	510
2006	56
	$11,427

In addition, Stations has entered into noncancellable commitments for future program broadcast rights aggregating approximately $13,630,000 as of December 31, 2001 with future payments as follows:

Year Ending December 31,	(In thousands)
2002	$ 1,365
2003	5,246
2004	4,342
2005	2,225
2006	434
Thereafter	18
	$13,630

(Note I) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

December 31,

	2000	2001
	(In thousands)	
Trade payables	$ 1,553	$ 1,207
Barter, net	279	200
Compensation and benefits	5,757	4,517
Interest	2,486	14,449
Other	2,374	2,688
	$ 12,449	$ 23,061

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Note J) Leases

Stations leases land, office space and office and transportation equipment under agreements which expire from 2002 through 2007 and require various minimum annual rentals. The leases also require payment of the normal maintenance, real estate taxes and insurance on the properties.

Stations has the option to purchase its leased premises in Casper, Wyoming upon written notice to the landlord at any time during the 10-year term, which expires March 5, 2007. At December 31, 2001, the option purchase price was $446,000, which increases each year through 2002 by six percent and each year thereafter by three percent of the original option purchase price.

The approximate total minimum rental commitments at December 31, 2001 under these leases are due as follows:

Year Ending December 31,	(In thousands)
2002	$1,364
2003	1,278
2004	893
2005	807
2006	400
Thereafter	156
	$4,898

Total rental expense under these agreements and other monthly rentals for the years ended 1999, 2000 and 2001 was approximately $1,127,000, $1,129,000 and $1,040,000, respectively.

Stations is a lessor of certain portions of its real property to various organizations. Total rental income under these agreements for the years ended 1999, 2000 and 2001 was approximately $1,000,000, $1,031,000 and $799,000, respectively.

(Note K) Income Tax Matters

On June 6, 1996 when Stations changed tax status from an S corporation to a C corporation, the accumulated deficit of $41,073,000, which existed on that date, was reclassified to additional paid-in capital.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The deferred tax assets and liabilities consist of the following components for Stations:

	December 31,	
	2000	2001
	(In thousands)	
Deferred tax assets:		
Loss and tax credit carryforwards	$ 5,838	$ 11,343
Receivable allowances and accruals	1,138	946
Network agreements	973	762
Original issue discount	26,200	29,049
	34,149	42,100
Deferred tax liabilities:		
Property and equipment	5,596	4,555
Intangibles	78,480	76,811
	84,076	81,366
Net deferred tax liability	$(49,927)	$(39,266)

The total income tax benefit (expense) for the years ended December 31, 1999, 2000 and 2001 was $9,717, $(30,479) and $11,906, respectively. Those amounts have been allocated to the following financial statement items:

	Year Ended December 31,		
	1999	2000	2001
		(In thousands)	
Income (loss) from continuing operations	$ (406)	$(29,199)	$10,165
(Loss) from discontinued operations	1,783	(652)	1,741
Extraordinary item	8,340	(628)	
	$9,717	$(30,479)	$11,906

The income tax benefit (expense) related to continuing operations before income taxes and extraordinary item for Stations consisted of the following:

	Year Ended December 31,		
	1999	2000	2001
		(In thousands)	

Current tax benefit (expense)	$ (696)	$ (608)	$ 359
Deferred tax benefit (expense)	290	(28,591)	9,806
	$ (406)	$ (29,199)	$ 10,165

Under the provisions of the Internal Revenue Code, Stations and its subsidiaries have approximately $27,021,000 of net operating loss carryforwards, which expire in the years 2020 through 2022, and approximately $535,000 of tax credit carryforwards with no expiration, that are available to offset future tax liabilities.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the statutory federal income tax rate to Stations effective tax rate on income (loss) from continuing operations is as follows:

	December 31,		
	1999	2000	2001
Computed expected income tax (benefit) expense	(35.0)%	35.0%	(35.0)%
Increase (decrease) resulting from:			
State income taxes, net of federal effect	(5.0)	5.0	(5.0)
Nondeductible amortization and expenses	14.7	2.5	3.2
Nondeductible goodwill write-off related to sale of stations	25.1	22.6	
Other, net	3.9	(0.1)	(0.2)
Effective tax rate	3.7%	65.0%	(37.0)%

The 1999 and 2000 tax effects related to the extraordinary items in 1999 and 2000 (Note G) are deferred and approximate the statutory U.S. tax rate.

(Note L) Preferred and Common Stock

The board of directors of Stations has authorized 2,500,000 shares of preferred stock of which 550,000 was issued and outstanding as of December 31, 2001. The board has the right and ability to set the terms and preferences of the preferred stock. The board has not set the terms and preferences of the remaining 1,950,000 unissued shares.

The following table summarizes common stock:

	December 31,	
	2000	2001
Common stock, class A par value $0.01, one vote per share		
Authorized shares	10,000,000	10,000,000
Issued and outstanding shares	None	None
Common stock, class B par value $0.01, ten votes per share, convertible into class A common stock at a ratio of 1:1		
Authorized shares	10,000,000	10,000,000
Issued and outstanding shares	7,400,000	7,400,000

(Note M) Fair Value of Financial Instruments

The estimated fair value of financial instruments has been estimated by Stations using available market information and appropriate valuation methodologies as discussed below. Considerable judgment was required, however, to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts Stations could realize in a current market exchange.

Cash and cash equivalents, current receivables and current payables have carrying values which approximate fair value because of the short-term nature of those instruments. The floating rate long-term debt carrying amount approximates fair value because the interest rate fluctuates with the bank s lending rate. The interest rate cap agreement is carried at fair value.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows the carrying amounts and estimated fair values of other financial instrument liabilities at December 31, 2000 and 2001:

	2000		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Program broadcast liabilities	$ 9,517	$ 9,081	$ 11,427	$ 11,002
Other notes payable	6,896	6,896	6,702	6,702
Discount Notes	147,546	119,096	154,670	112,909
Senior Preferred Stock	139,636	47,152	157,845	30,179
Junior Preferred Stock	65,928	22,078	78,905	See Below

The fair value of program broadcast liabilities and other notes payable were estimated using the discounted cash flow method.

The fair value of the Discount Notes and Senior Preferred Stock were estimated using readily available quoted market prices.

The fair value of the Junior Preferred Stock at December 31, 2000 was estimated using discounted cash flow analysis, based on the interest rate, preferences and other risks inherent in the instrument. Due to Stations current financial position and the lack of available market prices, the fair value of the Junior Preferred Stock was not practicable to be estimated at December 31, 2001.

The above fair value estimates were made at a discrete point in time based on relevant market information and other assumptions about the financial instruments. As no active market exists for a significant portion of Stations financial instruments, fair value estimates were based on judgments regarding current economic conditions; future expected cash flows, risk characteristics and other factors. These estimates are subjective in nature and involve uncertainties and, therefore, cannot be calculated with precision. Changes in assumptions could significantly affect these estimates.

(Note N) Pending Adoption of Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued two statements Statement 141 Business Combinations and Statement 142 Goodwill and Other Intangible Assets, which will impact Stations accounting for its goodwill and other intangible assets. Stations will be required to adopt these pronouncements for its 2002 financial statements.

Statement 141 Business Combinations :

Eliminates the pooling method of accounting for business combinations.

Requires that intangible assets that meet certain criteria be reported separately from goodwill.

Requires that negative goodwill arising from a business combination is recorded as an extraordinary gain.

Statement 142 Goodwill and Other Intangible Assets :

Eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life.

Requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Upon adoption of these statements, Stations is required to:

Evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations and to make any necessary reclassifications in order to conform to the new criteria.

Reassess the useful lives of intangible assets and adjust the remaining amortization periods accordingly.

In accordance with Statement 142, Stations stopped amortizing its goodwill and FCC licenses upon adoption on January 1, 2002. Stations also revised the amortization periods for its network affiliation agreements from 40 years to the remaining term of the applicable agreement. As of January 1, 2002, Stations also performed the first of the required impairment tests of goodwill and indefinite lived intangible assets, from which no impairment loss was identified.

A reconciliation of previously reported net loss applicable to common stock and basic and diluted loss per share to the amounts adjusted for the exclusion of goodwill and FCC license amortization and for the adjustment to network affiliation agreement amortization, net of applicable income taxes, follow:

	Years Ended December 31,		
	1999	2000	2001
	(In thousands, except per share data)		
Reported net loss before extraordinary item applicable to common stock	$(34,764)	$(9,099)	$(76,601)
Add back:			
Goodwill amortization	4,415	3,590	3,389
FCC license amortization	2,054	2,658	2,842
Adjust network affiliation agreement amortization	(6,188)	(6,188)	(6,188)
Adjusted net loss before extraordinary item applicable to common stock	$(34,483)	$(9,039)	$(76,558)
Extraordinary item	(12,510)	942	
Adjusted net loss applicable to common stock	$(46,993)	$(8,097)	$(76,558)
Reported basic and diluted loss per share before extraordinary item	$ (4.70)	$ (1.23)	$ (10.35)
Add back:			
Goodwill amortization	0.60	0.49	0.46
FCC license amortization	0.28	0.36	0.38
Adjust network affiliation agreement amortization	(0.84)	(0.84)	(0.84)
Adjusted basic and diluted loss per share before extraordinary item	$ (4.66)	$ (1.22)	$ (10.35)
Extraordinary item	(1.69)	0.13	
Adjusted basic and diluted loss per share	$ (6.35)	$ (1.09)	$ (10.35)

(Note O) Early Adoption of Accounting Standard

In October 2001, the FASB issued Statement 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes accounting and reporting standards for the impairment or disposal of long-lived assets. This statement supercedes Statement 121 Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of. Statement 144 provides one accounting model to

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

be used for long-lived assets to be disposed of by sale, whether previously held for use or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, however, as permitted by the Statement, Stations has elected to early adopt Statement 144 as of January 1, 2001, and the accompanying financial statements have been prepared with the Station Group and WTRF-TV accounted for as discontinued operations in accordance with Statement 144. The adoption of this Statement had no effect on net loss for the year ended December 31, 2001.

(Note P) Commitments

In accordance with FCC regulations, Stations is required to provide digital advanced television transmission (DTV) for each of its television stations by May 1, 2002. The conversion to DTV from current analog transmissions will require a substantial capital outlay by Stations and has been completed at one of the television stations. Stations has requested six-month extensions for each of the remaining stations which are currently pending with the FCC. Stations estimates the total costs associated with the conversion to be approximately $18,700,000. Approximately $4,147,000 has been incurred at December 31, 2001, with the remainder to be incurred in 2002 and beyond. In connection with the conversion to DTV, Stations has entered into an agreement to purchase twelve digital transmitters for approximately $4,990,000.

(Note Q) Management Plans, Continuing Operations and Subsequent Events

Stations is currently in default under its Credit Facility due to the violation of certain covenants since June 30, 2001. The senior lenders under the Credit Facility thus blocked the payment of approximately $10,247,000 of cash interest due to the holders of the Discount Notes on November 15, 2001. The payment blockage is for a period of 179 days commencing on November 7, 2001. Due to this payment blockage, Stations has not yet made the November 15, 2001 interest payment and is in default under the Discount Notes.

In response to the above, Stations has been actively seeking to reduce its debt burden since February 2001. These efforts include, among other things, potential asset or stock sales. The Stations efforts to sell assets and reduce indebtedness are designed to enable Stations to service and/or prepay its debt obligations. In addition to potential asset and stock sales, Stations continues to explore other alternatives to address its cash interest obligations on the Discount Notes and its non-compliance with the Credit Facility. The events of September 11, 2001 and their adverse impact on Stations liquidity, together with the difficult advertising revenue climate that continued through the end of 2001, have negatively impacted some of the alternatives that were previously available to Stations.

Stations has held extensive negotiations with certain holders of the Discount Notes and other constituents in an attempt to obtain additional liquidity or otherwise address the outstanding defaults under the Discount Notes and the Credit Facility. Notwithstanding many weeks of intense discussions, Stations has been unable to accomplish an out of court restructuring with its constituents. Therefore, on March 22, 2002 Stations filed for relief under Chapter 11 of the Bankruptcy Code to fully explore all available strategic alternatives in order to identify the option that will best maximize value for Stations constituents.

On April 1, 2002 Stations signed a letter of intent with Gray Communications Systems, Inc. (Gray), whereby Gray will acquire 100% of the capital stock of Stations for a cash payment of $500,000,000 less the amount of debt assumed at closing. The transaction is subject to execution of a definitive agreement as well as approval by the FCC of the transfer of control of Stations FCC licenses. The transaction is also subject to approval by the Delaware bankruptcy court with jurisdiction over the Chapter 11 reorganization of Stations. The transaction is expected to close by the fourth quarter of 2002.

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STATIONS HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On April 30, 2002, Stations completed the sale of the television broadcast assets of WTRF-TV to West Virginia Media. See (Note B).

On June 4, 2002, Stations executed a merger agreement with Gray whereby Stations will become a subsidiary of Gray in exchange for approximately $502,500,000 in cash, a substantial portion of which will be used to satisfy, in full, certain indebtedness of Stations. As part of the merger agreement, Stations and Gray agreed to sell the assets of eight television stations (the Station Group) to a third party prior to the merger with Gray. On June 4, 2002, Stations also signed an agreement with a third party to sell the Station Group for a sales price of $30,000,000 less assumed indebtedness. The Station Group and WTRF-TV have been accounted for as discontinued operations under SFAS No. 144 for each period presented.

The assets and liabilities of the Station Group and WTRF-TV consist of the following at December 31:

	2000	2001
	(In thousands)	
Assets		
Accounts receivable	$ 8,080	$ 7,438
Program broadcast rights	2,281	2,783
Property and equipment	20,389	19,041
Goodwill	35,277	10,729
Intangible assets	44,027	41,542
Other	886	1,107
Total	$ 110,940	$ 82,640
Liabilities		
Notes and leases payable	$ 2,219	$ 1,921
Accounts payable and accrued expenses	2,297	3,133
Program broadcast liabilities	3,151	2,741
Deferred taxes	13,106	12,217
Other	1,307	1,017
Total	$ 22,080	$ 21,029

The assets of WTRF-TV are separately classified as Assets of station held for sale at December 31, 2001.

For the years ended December 31, 1999, 2000 and 2001, the net revenues included in discontinued operations for the Station Group and WTRF-TV were $40,974,000, $43,399,000 and $36,115,000, respectively. Excluding writedowns to fair value and losses on sale of $(2,984,000) in 1999 and $(24,553,000) in 2001, the amount of loss before income taxes included in discontinued operations for the years ended December 31, 1999, 2000 and 2001 was $(3,158,000), $(229,000) and $(5,273,000), respectively.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2001	June 30, 2002
		(Unaudited)
	(In thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,503	$ 4,771
Receivables		
Trade, net	29,912	20,959
Notes receivable-officers	720	1,650
Other	720	479
Current portion of program broadcast rights	6,394	1,260
Prepaid expenses	2,237	2,347
Deferred income taxes	946	549
Assets of stations held for sale	18,500	33,351
Total current assets	62,932	65,366
Property and equipment	67,874	48,579
Goodwill	83,210	78,099
Intangible assets	247,665	210,370
Other assets		
Program broadcast rights, less current portion	1,884	1,320
Deferred loan and transaction costs	3,487	3,534
Notes receivable-officers	982	168
Other	203	311
	6,556	5,333
	$ 468,237	$ 407,747
LIABILITIES AND STOCKHOLDERS (DEFICIT)		
Liabilities Not Subject to Compromise:		
Current Liabilities:		
Current maturities of notes payable	$ 432,639	$ 1,979
Current portion of program broadcast liabilities	9,421	3,471
Accounts payable and accrued expenses	23,061	17,625
Deferred revenue	580	265
Liabilities of stations held for sale		6,365
Total current liabilities	465,701	29,705
Long-Term Obligations		
Notes payable	4,733	3,050
Program broadcast liabilities	2,006	1,120
Deferred revenue	1,325	500
Deferred income taxes	40,212	28,041

	48,276	32,711
Liabilities subject to compromise		425,039
Senior exchangeable preferred stock, liquidation preference, 2001 $150,895 and 2002 $159,696	157,845	166,604
Seller junior discount preferred stock, liquidation preference, 2001 $73,296 and 2002 $79,604	78,905	86,166
Stockholders (Deficit)		
Common stock, Class A		
Common stock, Class B	74	74
Additional paid-in capital	(68,605)	(68,585)
Accumulated deficit	(213,260)	(263,516)
Stockholder s note receivable	(699)	(451)
	(282,490)	(332,478)
	$ 468,237	$ 407,747

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,	
	2001	**2002**
	(Unaudited) (In thousands, except share and per share data)	
Net revenues	$ 28,441	$ 29,057
Operating expenses:		
Selling, technical and program expenses	12,240	12,431
General and administrative	3,979	4,253
Depreciation and amortization	5,565	6,044
Corporate	1,459	1,561
	23,243	24,289
Operating income	5,198	4,768
Financial income (expense):		
Interest expense:		
Cash interest	(7,728)	(10,192)
Other interest	(2,136)	(192)
	(9,864)	(10,384)
Interest income	38	24
	(9,826)	(10,360)
(Loss) before reorganization items	(4,628)	(5,592)
Reorganization items:		
Professional fees		(160)
(Loss) from continuing operations before income tax	(4,628)	(5,752)
Income tax benefit	1,549	2,169
(Loss) from continuing operations	(3,079)	(3,583)
Discontinued Operations:		
(Loss) from operations of discontinued stations	(665)	(84)
Income tax benefit (expense)	163	(2,264)
(Loss) from discontinued operations	(502)	(2,348)
Net (loss)	(3,581)	(5,931)
Preferred stock dividends and accretion	(7,622)	(8,171)
Net (loss) applicable to common stock	$ (11,203)	$ (14,102)
Basic and diluted (loss) per common share:		

(Loss) from continuing operations	$ (1.44)	$ (1.59)
(Loss) from discontinued operations	(0.07)	(0.32)
(Loss) per common share	$ (1.51)	$ (1.91)
Weighted-average common shares outstanding	7,400,000	7,400,000

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended June 30,	
	2001	**2002**
	(Unaudited) (In thousands, except share and per share data)	
Net revenues	$ 52,028	$ 54,641
Operating expenses:		
Selling, technical and program expenses	24,766	24,622
General and administrative	8,117	8,320
Depreciation and amortization	10,933	12,353
Corporate	3,123	3,104
	46,939	48,399
Operating income	5,089	6,242
Financial income (expense):		
Interest expense:		
Cash interest	(12,779)	(20,783)
Other interest	(7,797)	(384)
	(20,576)	(21,167)
Interest income	87	56
	(20,489)	(21,111)
(Loss) before reorganization items	(15,400)	(14,869)
Reorganization items:		
Professional fees		(1,091)
(Loss) from continuing operations before income tax	(15,400)	(15,960)
Income tax benefit	5,613	6,100
(Loss) from continuing operations	(9,787)	(9,860)
Discontinued Operations:		
(Loss) from operations of discontinued stations	(3,036)	(33,581)
Income tax benefit	888	9,205
(Loss) from discontinued operations	(2,148)	(24,376)
Net (loss)	(11,935)	(34,236)
Preferred stock dividends and accretion	(15,102)	(16,020)
Net (loss) applicable to common stock	$ (27,037)	$ (50,256)
Basic and diluted (loss) per common share:		

(Loss) from continuing operations	$ (3.36)	$ (3.50)
(Loss) from discontinued operations	(0.29)	(3.29)
(Loss) per common share	$ (3.65)	$ (6.79)
Weighted-average common shares outstanding	7,400,000	7,400,000

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS (DEFICIT)

Six Months Ended June 30, 2002

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Stockholder s Note Receivable	Total
			(Unaudited) (In thousands)		
Balance at December 31, 2001	$ 74	$(68,605)	$(213,260)	$(699)	$(282,490)
Dividends on preferred stock			(16,020)		(16,020)
Accrued interest on note receivable		20		(20)	
Amortization of stockholder note forgiveness				268	268
Net (loss)			(34,236)		(34,236)
Balance at June 30, 2002	$ 74	$(68,585)	$(263,516)	$(451)	$(332,478)

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2001	**2002**
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net (loss)	$(11,935)	$(34,236)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Amortization of program broadcast rights	4,650	4,418
Depreciation and amortization	8,870	7,140
Amortization and writedown of intangibles and deferred loan costs	6,036	6,621
Amortization of note discount	7,124	
Loss on writedown of stations held for sale		31,718
Deferred income taxes	(5,133)	(15,457)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables	2,761	3,277
Prepaid expenses and other	(492)	(78)
Payments on program broadcast liabilities	(4,702)	(4,860)
Accounts payable and accrued expenses	2,322	14,390
Deferred revenue	(277)	(247)
Net cash provided by operating activities	9,224	12,686
Cash flows from investing activities		
Purchase of property and equipment	(5,717)	(4,643)
Proceeds from sale of station		17,821
Disbursements on notes receivable officers, net of payments	15	
Other, net	(47)	15
Net cash provided by (used in) investing activities	(5,749)	13,193
Cash flows from financing activities		
Principal payments on notes payable	(671)	(8,979)
Net payments on revolver	(2,500)	(15,224)
Repurchase of initial warrants	(158)	
Deferred transaction costs and other	(141)	(408)
Net cash (used in) financing activities	(3,470)	(24,611)
Increase in cash and cash equivalents	5	1,268
Cash and cash equivalents:		
Beginning	3,983	3,503
Ending	$ 3,988	$ 4,771

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Six Months Ended June 30,	
	2001	**2002**
	(Unaudited) (In thousands)	
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest	$11,715	$ 9,435
Cash (received from) payments for income taxes	(1,474)	100
Supplemental Schedule of Noncash Investing and Financing Activities:		
Acquisition of program broadcast rights	$ 2,688	$ 349
Notes payable incurred for purchase of property and equipment	1,224	85
Equipment acquired by barter transactions	220	67
Dividends accrued on preferred stock	14,080	16,020
Accrued interest on note receivable stockholder added to additional paid-in capital	20	40
Amortization of stockholder note forgiveness		268
Accretion to senior preferred stock	1,022	
Sale of stations:		
Property and equipment sold	$	$ 3,036
Intangible assets sold		15,477
Program broadcast rights sold		152
Program liabilities transferred		(140)
Other, net		(39)
		18,486
Loss recognized on sale of station		(430)
		18,056
Option payment received during prior year, net of fees paid		(235)
Proceeds from sale of station, net	$	$17,821

The accompanying notes are an integral part of the consolidated financial statements.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Note A) Nature of Business and Basis of Presentation

Nature of Business

Stations is a holding company with minimal operations other than from its wholly owned subsidiary, Benedek. Stations owns and operates twenty-three television stations located throughout the United States. Stations revenues are derived primarily from the sale of advertising time and, to a modest extent from compensation paid by the networks for broadcasting network programming and barter transactions for goods and services. The television stations sell commercial time during the programs to national, regional and local advertisers. The networks also sell commercial time during the programs to national advertisers. Credit arrangements are determined on an individual customer basis. Segment information is not presented since all of Stations revenue is attributed to a single reportable segment.

Basis of Presentation

The consolidated financial statements include the accounts of Stations and Benedek. Benedek includes three wholly owned subsidiaries, Benedek License Corporation, Benedek Cable, Inc. and Benedek Interactive Media, LLC. All significant intercompany items and transactions have been eliminated in consolidation.

On March 22, 2002, Stations filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Benedek and its subsidiaries are not party to the bankruptcy action. Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-possession. These claims are reflected in the June 30, 2002 balance sheet as Liabilities subject to compromise.

The accompanying financial statements have been prepared assuming that Stations will continue as a going concern. Stations is in default under its credit facility and senior subordinated discount notes and Stations has filed for relief as described above. These facts raise substantial doubt with respect to Stations ability to continue as a going concern. Management s plans in regard to these matters are described in Note D below. The financial statements do not include any adjustments that might result from the outcome of this uncertainty, other than the classification of Stations credit facility, which totals $252,892,000, the Discount Notes of $154,670,000, and the prepetition interest due on the Discount Notes of $17,477,000, as a portion of liabilities subject to compromise.

The accompanying unaudited consolidated financial statements have been prepared consistent with generally accepted accounting principles for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Some of the information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. It is recommended that these financial statements be read along with the annual financial statements and footnotes thereto of Stations for the year ended December 31, 2001.

(Note B) Commitments

In accordance with FCC regulations, the stations are required to provide digital television transmission (DTV) by May 1, 2002. The conversion to DTV from the current analog transmissions will require a substantial capital outlay by Stations and has been completed at one of the stations. The FCC has granted six month extensions for each of the remaining stations. Stations estimates the total costs associated with the conversion to be $17.0 million. At June 30, 2002, $7.5 million has been incurred, with the remainder to be incurred in 2002 and beyond.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the conversion to DTV, Stations entered into a strategic alliance agreement that requires Stations to purchase twenty-five transmitters for an amount that represents approximately $10,400,000. Through June 30, 2002, Stations had received and substantially completed payment on 13 of the transmitters.

(Note C) Adoption of Accounting Standards

Statement of Financial Accounting Standards No. 142

On January 1, 2002, Stations adopted Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations and SFAS No. 142 Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and also specifies the criteria for recognition of intangible assets separately from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment upon adoption and at least annually thereafter in accordance with the provisions of SFAS No. 142.

In accordance with SFAS No. 142, Stations stopped amortizing its goodwill and FCC licenses upon adoption on January 1, 2002. Amortization expense related to the goodwill and FCC licenses for the six-month period ended June 30, 2001 was approximately $3,094,000 (net of $1,000,000 of applicable income taxes). Stations also revised the amortization periods for its network affiliation agreements from 40 years to the remaining term of the applicable agreement. As of January 1, 2002, Stations also performed the first of the required impairment tests of goodwill and indefinite lived intangible assets, from which no impairment loss was identified.

A reconciliation of previously reported net loss applicable to common stock and basic and diluted loss per share to the amounts adjusted for the exclusion of goodwill amortization and the amortization of indefinite lived intangible assets and for the adjustment to network affiliation agreement amortization, net of applicable income taxes, follow:

	Six Months Ended June 30,	
	2001	2002
	(In thousands, except per share data)	
Reported net loss applicable to common stock	$ (27,037)	$ (50,256)
Add back:		
Goodwill amortization	1,673	
FCC license amortization	1,421	
Adjust network affiliation agreement amortization	(3,142)	
Adjusted net loss applicable to common stock	$ (27,085)	$ (50,256)
Reported basic and diluted loss per share	$ (3.65)	$ (6.79)
Add back:		
Goodwill amortization	0.23	
FCC license amortization	0.19	
Adjust network affiliation agreement amortization	(0.43)	
Adjusted basic and diluted loss per share	$ (3.66)	$ (6.79)

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The changes in the carrying amount of goodwill for the six-month period ended June 30, 2002 are as follows:

	(In thousands)
Balance as of January 1, 2002.	$83,210
Writedown associated with stations held for sale	(4,803)
Goodwill classified as asset of stations held for sale	(308)
Balance as of June 30, 2002.	$78,099

The composition of Stations intangible assets and associated accumulated amortization is as follows as of June 30, 2002:

	Gross Carrying Amount	Accumulated Amortization	Assets Held For Sale	Net Carrying Amount
	(In thousands)			
Intangible assets subject to amortization:				
Network affiliation agreements	$ 99,111	$28,139	$4,518	$ 66,454
Other	2,526	1,380	21	1,125
	101,637	29,519	4,539	67,579
Intangible assets not subject to amortization:				
FCC licenses	142,791			142,791
Total intangible assets	$244,428	$29,519	$4,539	$210,370

The aggregate amortization expense for the six-month periods ended June 30, 2001 and 2002 totaled $5,406,000 and $6,261,000, respectively. Estimated amortization expense for each of the years ending December 31, 2002 through 2006 is approximately $11,300,000 per year.

Statement of Financial Accounting Standards No. 144

On January 1, 2001, Stations adopted SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets which provides accounting and disclosure guidance for the impairment of long-lived assets and long-lived assets to be disposed of.

On April 1, 2002, Stations signed the letter of intent with Gray Communications Systems, Inc. (Gray), which is described more fully in Note D along with the resulting merger agreement. Included in that agreement, Stations agreed to sell all assets of eight television stations (Station Group) to a third party prior to the merger with Gray. On June 4, 2002, Stations signed an agreement with a third party to sell the Station Group for a sales price of $30,000,000 less assumed indebtedness. This sale is to close before the merger agreement with Gray is consummated, which will most likely occur in the fourth quarter of 2002.

On November 26, 2001, Stations entered into an Asset Purchase Agreement with West Virginia Media Holdings, LLC (West Virginia Media) pursuant to which, on April 30, 2002, Stations sold the television broadcast assets of WTRF-TV, in Wheeling, West Virginia to West Virginia Media for $18,500,000. Stations recorded a lower of cost or market adjustment of approximately $6,880,000 in the fourth quarter of 2001 to write down the assets of WTRF-TV to the sales price and subsequently recorded a loss on the disposition of WTRF-TV of approximately $430,000 during the quarter ending June 30, 2002.

The Station Group has been classified as stations held for sale at June 30, 2002 and the Station Group and WTRF-TV have accordingly been accounted for as discontinued operations under SFAS No. 144.

STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assets and liabilities of the Station Group and WTRF-TV at December 31, 2001 and the Station Group at June 30, 2002 consist of the following:

	December 31, 2001	June 30, 2002
	(In thousands)	
Assets		
Accounts receivable	$ 7,438	$ 5,684
Program broadcast rights	2,783	1,478
Property and equipment	19,041	16,914
Goodwill	10,729	308
Intangible assets	41,542	4,539
Deferred taxes		3,684
Other	1,107	744
Total	$82,640	$33,351
Liabilities		
Notes and leases payable	$ 1,921	$ 1,429
Accounts payable and accrued expenses	3,133	1,878
Program broadcast liabilities	2,741	2,184
Deferred taxes	12,217	
Other	1,017	874
Total	$21,029	$ 6,365

During 2002, Stations recorded a write-down before income taxes of approximately $31,288,000. This write-down was needed to adjust the carrying value of the stations held for sale to their fair value.

For the six months ended June 30, 2001 and 2002, the net revenues included in discontinued operations for the Station Group and WTRF-TV were $17,909,000 and $16,395,000, respectively. Excluding the write-down to fair value of $(31,288,000) and the loss on the disposition of WTRF-TV of $(430,000) in 2002, the amount of loss before income taxes included in discontinued operations for the six months ended June 30, 2001 and 2002 was $(3,036,000) and $(1,863,000), respectively.

(Note D) Management Plans, Continuing Operations and Subsequent Events

Stations has been in default under its Credit Facility due to the violation of certain covenants since June 30, 2001. The senior lenders under the credit facility thus blocked the payment of approximately $10,247,000 of cash interest due to the holders of the Senior Subordinated Discount Notes (Discount Notes). Due to this payment blockage, Stations has not yet made the November 15, 2001 and May 15, 2002 interest payments and is in default under the Discount Notes.

In response to the above, Stations has been actively seeking to reduce its debt burden since February 2001. These efforts included, among other things, potential asset or stock sales. Stations efforts to sell assets and reduce indebtedness were designed to enable Stations to service and/or prepay their debt obligations. In addition to potential asset and stock sales, Stations continued to explore other alternatives to address its cash interest obligations on the Discount Notes and its non-compliance with the Credit Facility. However, the events of September 11, 2001 and their adverse impact on Stations liquidity together with the difficult advertising revenue climate that continued through the end of 2001, negatively impacted some of the alternatives that were previously available to Stations.

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STATIONS HOLDING COMPANY, INC., DEBTOR-IN-POSSESSION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stations held extensive negotiations with certain holders of the Discount Notes and other constituents in an attempt to obtain additional liquidity or otherwise address the outstanding defaults under the Discount Notes and the Credit Facility. Notwithstanding many weeks of intense discussions, Stations was unable to accomplish an out of court restructuring with its constituents. Therefore, on March 22, 2002 Stations filed for relief under Chapter 11 of the Bankruptcy Code to fully explore all available strategic alternatives in order to identify the option that would best maximize value for Stations constituents.

On April 1, 2002 Stations signed a letter of intent with Gray and on June 4, 2002 Stations executed a merger agreement with Gray whereby Stations will become a subsidiary of Gray in exchange for approximately $502,500,000 in cash. This amount anticipates payment in full of the Credit Facility and Discount Notes and partial payment to the holders of the Senior Preferred Stock and the Junior Preferred Stock.

Stations and Gray agreed in the merger agreement to the disposition by Stations of the Station Group. On June 4, 2002 Stations thus entered into an agreement to sell the Station Group to a third party for a sales price of $30,000,000 less assumed indebtedness. The proceeds of the transaction, which is a condition of closing pursuant to the merger agreement, will be consummated immediately prior to the closing of the merger agreement with Gray and will be used to partially repay Stations lenders under the Credit Facility. The merger agreement with Gray and the sale of the Station Group are expected to close in the fourth quarter of 2002.

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30,000,000 Shares

GRAY TELEVISION, INC.

Common Stock

PROSPECTUS SUPPLEMENT

Deutsche Bank Securities

Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

Allen & Company LLC

Wachovia Securities

SunTrust Robinson Humphrey

October 16, 2002