SAGA COMMUNICATIONS INC
Form 10-Q
November 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period ended September 30, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-11588

Saga Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**38-3042953** **(I.R.S. Employer** **Identification No.)**
73 Kercheval Avenue **Grosse Pointe Farms, Michigan** **(Address of principal executive offices)**	**48236** **(Zip Code)**

(313) 886-7070

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨ .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of the registrant s Class A Common Stock, $.01 par value, and Class B Common Stock, $.01 par value, outstanding as of November 2, 2012 was 3,652,405 and 597,504, respectively.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 14,124**	$ 6,991
Accounts receivable, net	**19,158**	19,415
Prepaid expenses and other current assets	**2,602**	1,907
Barter transactions	**1,808**	1,358
Deferred income taxes	**1,205**	1,169
Current assets of station held for sale	**127**	120
Total current assets	**39,024**	30,960
Property and equipment	**156,692**	154,246
Less accumulated depreciation	**97,294**	93,624
Net property and equipment	**59,398**	60,622
Broadcast licenses, net	**90,361**	90,356
Other intangibles, deferred costs and investments, net	**5,515**	5,409
Assets of station held for sale	**2,815**	2,987
	$ 197,113	$ 190,334
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**$ 1,625**	$ 1,728
Payroll and payroll taxes	**6,513**	5,730
Other accrued expenses	**3,184**	2,502
Barter transactions	**1,775**	1,550
Current portion of long-term debt		3,000
Current liabilities of station held for sale	**125**	128
Total current liabilities	**13,222**	14,638
Deferred income taxes	**16,493**	13,383
Long-term debt	**58,828**	66,078
Other liabilities	**3,232**	3,065
Liabilities of station held for sale	**170**	195
Total liabilities	**91,945**	97,359
Commitments and contingencies		
Stockholders equity		
Common stock	**53**	53
Additional paid-in capital	**50,788**	50,681
Retained earnings	**82,996**	70,831

Treasury stock	**(28,669)**	(28,590)
Total stockholders equity	**105,168**	92,975
	$ 197,113	$ 190,334

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Unaudited) (In thousands, except per share data)			
Net operating revenue	**$ 32,409**	$ 32,027	**$ 94,718**	$ 93,039
Station operating expense	**22,379**	22,939	**66,698**	68,089
Corporate general and administrative	**1,910**	1,965	**5,799**	5,854
Operating income from continuing operations	**8,120**	7,123	**22,221**	19,096
Other expenses, net:				
Interest expense	**381**	646	**1,367**	2,837
Write-off revolving credit facility debt issuance costs				1,326
Other (income) expense, net	**145**	27	**135**	(5)
Income from continuing operations before income tax	**7,594**	6,450	**20,719**	14,938
Income tax provision	**3,227**	2,473	**8,450**	5,930
Income from continuing operations, net of income tax	**4,367**	3,977	**12,269**	9,008
Loss from discontinued operations, net of income tax	**(39)**	(283)	**(104)**	(482)
Net income	**$ 4,328**	$ 3,694	**$ 12,165**	$ 8,526
Basic earnings (loss) per share:				
From continuing operations	**$ 1.03**	$ .94	**$ 2.89**	$ 2.13
From discontinued operations	**(.01)**	(.07)	**(.02)**	(.12)
Earnings per share	**$ 1.02**	$ .87	**$ 2.87**	$ 2.01
Diluted earnings (loss) per share:				
From continuing operations	**$ 1.03**	$ .94	**$ 2.89**	$ 2.12
From discontinued operations	**(.01)**	(.07)	**(.03)**	(.11)
Earnings per share	**$ 1.02**	$ .87	**$ 2.86**	$ 2.01
Weighted average common shares	**4,246**	4,242	**4,243**	4,238
Weighted average common and common equivalent shares	**4,252**	4,246	**4,250**	4,242

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	**$ 21,521**	$ 19,421
Cash flows from investing activities:		
Acquisition of property and equipment	**(3,904)**	(4,140)
Proceeds from sale of short-term investments		1,018
Other investing activities	**(154)**	67
Net cash used in investing activities	**(4,058)**	(3,055)
Cash flows from financing activities:		
Payments on long-term debt	**(10,250)**	(111,850)
Proceeds from long-term debt		92,100
Payments for debt issuance costs		(1,149)
Purchase of shares held in treasury	**(80)**	(117)
Net cash used in financing activities	**(10,330)**	(21,016)
Net increase (decrease) in cash and cash equivalents	**7,133**	(4,650)
Cash and cash equivalents, beginning of period	**6,991**	12,197
Cash and cash equivalents, end of period	**$ 14,124**	$ 7,547

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements.

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of September 30, 2012 and the results of operations for the three and nine months ended September 30, 2012 and 2011. Results of operations for the nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and notes required by GAAP for annual financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2011.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2012, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

Earnings Per Share Information

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Numerator:				
Income from continuing operations, net of income tax	$ 4,367	$ 3,977	$ 12,269	$ 9,008
Loss from discontinued operations, net of income tax	(39)	(283)	(104)	(482)
Net income available to common stockholders	$ 4,328	$ 3,694	$ 12,165	$ 8,526
Denominator:				
Denominator for basic earnings per share weighted average shares	4,246	4,242	4,243	4,238
Effect of dilutive securities	6	4	7	4
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	4,252	4,246	4,250	4,242
Basic earnings (loss) per share:				
From continuing operations	$ 1.03	$ .94	$ 2.89	$ 2.13
From discontinued operations	(.01)	(.07)	(.02)	(.12)
Earnings per share	$ 1.02	$ .87	$ 2.87	$ 2.01
Diluted earnings (loss) per share:				

From continuing operations	$ 1.03	$ .94	$ 2.89	$ 2.12
From discontinued operations	(.01)	(.07)	(.03)	(.11)
Earnings per share	$ 1.02	$ .87	$ 2.86	$ 2.01

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 105,000 for the three and nine months ended September 30, 2012 and 228,000 for the three and nine months ended September 30, 2011. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

Income Taxes

Our effective tax rate is higher than the federal statutory rate as a result of the inclusion of state income taxes in the income tax amount.

Time Brokerage Agreements

We have entered into Time Brokerage Agreements (TBA s) or Local Marketing Agreements (LMA s) in certain markets. In a typical TBA/LMA, the FCC licensee of a station makes available, for a fee, blocks of air time on its station to another party that supplies programming to be broadcast during that air time and sells their own commercial advertising announcements during the time periods specified. Revenue and expenses related to TBA s/LMA s are included in the accompanying unaudited Condensed Consolidated Statements of Income.

2. Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU change the wording used to describe many of the requirements in U.S. generally accepted accounting principles (GAAP) for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this ASU to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This update was adopted on January 1, 2012 and did not have a material impact on our consolidated financial statements.

3. Intangible Assets

We evaluate our FCC licenses for impairment annually as of October 1st or more frequently if events or circumstances indicate that the asset might be impaired. FCC licenses are evaluated for impairment at the market level using a direct method. If the carrying amount of FCC licenses is greater than their estimated fair value in a given market, the carrying amount of FCC licenses in that market is reduced to its estimated fair value.

Intangible assets that have finite lives are amortized over their useful lives using the straight-line method. Favorable lease agreements are amortized over the lives of the leases ranging from four to twenty-six years. Other intangibles are amortized over one to eleven years.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Discontinued Operations

On April 3, 2012 we entered into a definitive agreement to sell our Greenville, Mississippi TV station (WXVT) for $3 million, subject to certain adjustments, to H3 Communications, LLC (H3). We also entered into an Agreement for the Sale of Commercial Time and a Shared Services Agreement (the Agreements) with Commonwealth Broadcasting, LLC (Commonwealth), that were effective May 1, 2012, whereby Commonwealth, in conjunction with the WXVT sales staff will sell the advertising inventory of WXVT, and WXVT will provide programming and services including but not limited to use of facilities, traffic, billing, engineering, administrative and accounting to Commonwealth. The Agreements remain in effect until the closing of the sale or termination of the sales agreement, whichever is earlier. We do not anticipate this transaction to have a material effect on our consolidated financial statements. The sale, which is subject to the approval of the Federal Communications Commission, is expected to close in the fourth quarter of 2012 or the first quarter of 2013.

In accordance with authoritative guidance we have reported the results of operations of WXVT as discontinued operations in the accompanying unaudited condensed consolidated financial statements. For all previously reported periods, certain amounts in the unaudited condensed consolidated financial statements have been reclassified. The assets and liabilities of WXVT have been classified as held for sale and the net results of operations have been reclassified from continuing operations to discontinued operations. WXVT was previously included in the Company s television segment.

5. Common Stock and Treasury Stock

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through September 30, 2012:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2011	4,770	598
Conversion of shares	1	(1)
Balance, December 31, 2011	4,771	597
Conversion of shares		
Balance, September 30, 2012	4,771	597

We have a Stock Buy-Back Program to allow us to purchase up to $60 million of our Class A Common Stock. As of September 30, 2012, we have remaining authorization of $14.2 million for future repurchases of our Class A Common Stock.

6. Stock-Based Compensation

2005 Incentive Compensation Plan

On May 10, 2010, our stockholders approved the Amended and Restated 2005 Incentive Compensation Plan (the 2005 Plan) which replaced our 2003 Stock Option Plan (the 2003 Plan) as to future grants. The 2005 Plan extends through March 2015 and allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to officers and a selected number of employees.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

Stock-Based Compensation

For the nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, we had $22,000, $34,000 and $163,000, respectively, of total compensation expense related to stock options. This expense is included in corporate general and administrative expenses in our results of operations. The associated tax benefit recognized for the nine months ended September 30, 2012 and the three and nine months ended September 30, 2011 was $9,000, $14,000 and $67,000, respectively. The stock options were fully expensed at March 31, 2012, therefore there was no compensation expense related to stock options for the three months ended September 30, 2012.

The following summarizes the stock option transactions for the 2005 and 2003 Plans and the 1992 Stock Option Plan (the 1992 Plan) for the nine months ended September 30, 2012:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	227,747	$ 49.86	3.6	$ 135,886
Granted				
Exercised				
Expired	(24,886)	82.25		
Forfeited				
Outstanding and exercisable at September 30, 2012	202,861	$ 45.89	3.2	$ 532,848

The following summarizes the restricted stock transactions for the nine months ended September 30, 2012:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2012	9,914	$ 26.15
Granted		
Vested	(5,734)	27.75
Forfeited	(30)	23.96
Non-vested and outstanding at September 30, 2012	4,150	$ 23.96

For the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, we had $25,000, $85,000, $40,000 and $148,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. This expense is included in corporate general and administrative expenses in our results of operations. The associated tax benefit recognized for the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011 was $10,000, $35,000, $17,000 and $61,000, respectively.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

7. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Credit Agreement:		
Term loan	$ 57,750	$ 58,500
Revolving credit facility		9,500
Secured debt of affiliate	1,078	1,078
	58,828	69,078
Amounts payable within one year		3,000
	$ 58,828	$ 66,078

Our credit facility providing availability up to $117.8 million (the Credit Facility) consists of a $57.8 million term loan (the Term Loan) and a $60 million revolving loan (the Revolving Credit Facility) and matures on June 13, 2016.

We had $60 million of unused borrowing capacity under the Revolving Credit Facility at September 30, 2012. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses. As of September 30, 2012, we have no required amortization payment.

We have pledged substantially all of our assets (excluding our FCC licenses and certain other assets) in support of the Credit Facility and each of our subsidiaries has guaranteed the Credit Facility and has pledged substantially all of their assets (excluding their FCC licenses and certain other assets) in support of the Credit Facility.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at September 30, 2012) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

8. Segment Information

We evaluate the operating performance of our markets individually. For purposes of business segment reporting, we have aligned operations with similar characteristics into two business segments: Radio and Television.

The Radio segment includes twenty-three markets, which includes all ninety-one of our radio stations and five radio information networks. The Television segment includes two markets and consists of four television stations and four low power television (LPTV) stations. The Radio and Television segments derive their revenue from the sale of commercial broadcast inventory. The category Corporate general and administrative represents the income and expense not allocated to reportable segments.

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2012:				
Net operating revenue	$ 27,498	$ 4,911	$	$ 32,409
Station operating expense	19,365	3,014		22,379
Corporate general and administrative			1,910	1,910
Operating income (loss) from continuing operations	$ 8,133	$ 1,897	$ (1,910)	$ 8,120
Depreciation and amortization	$ 1,301	$ 341	$ 57	$ 1,699

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2011:				
Net operating revenue	$ 27,885	$ 4,142	$	$ 32,027
Station operating expense	20,029	2,910		22,939
Corporate general and administrative			1,965	1,965
Operating income (loss) from continuing operations	$ 7,856	$ 1,232	$ (1,965)	$ 7,123
Depreciation and amortization	$ 1,385	$ 339	$ 60	$ 1,784

	Radio	Television	Corporate and Other	Assets Held For Sale	Consolidated
	(In thousands)				
Nine Months Ended September 30, 2012:					

Net operating revenue	$ 81,180	$ 13,538	$		$ 94,718
Station operating expense	57,641	9,057			66,698
Corporate general and administrative			5,799		5,799
Operating income (loss) from continuing operations	$ 23,539	$ 4,481	$ (5,799)		$ 22,221
Depreciation and amortization	$ 3,872	$ 1,026	$ 170		$ 5,068
Total assets	$ 149,346	$ 23,213	$ 21,612	$ 2,942	$ 197,113