

SAGA COMMUNICATIONS INC

Form 10-Q

November 09, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period ended September 30, 2007**
- 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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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 October 31, 2007 was 17,888,828 and 2,393,246, respectively.



INDEX

	<b>Page</b>	
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	3
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	3
	<u>Condensed consolidated balance sheets September 30, 2007 and December 31, 2006</u>	3
	<u>Condensed consolidated statements of income Three and nine months ended September 30, 2007 and 2006</u>	4
	<u>Condensed consolidated statements of cash flows Nine months ended September 30, 2007 and 2006</u>	5
	<u>Notes to unaudited condensed consolidated financial statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4.</u>	<u>Controls and Procedures</u>	29
<u>PART II</u>	<u>OTHER INFORMATION</u>	30
<u>Item 6.</u>	<u>Exhibits</u>	30
<u>Signatures</u>		31
	<u>EX-31.1 Certification of Chief Executive Officer Pursuant to Section 302</u>	
	<u>EX-31.2 Certification of Chief Financial Officer Pursuant to Section 302</u>	
	<u>EX-32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906</u>	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SAGA COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2007 (Unaudited)</b>	<b>December 31, 2006 (Note)</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,362	\$ 10,799
Accounts receivable, net	23,937	23,777
Prepaid expenses and other current assets	4,639	4,363
Total current assets	38,938	38,939
Property and equipment	151,112	145,463
Less accumulated depreciation	76,826	71,805
Net property and equipment	74,286	73,658
Other assets:		
Broadcast licenses, net	160,284	150,114
Goodwill, net	49,422	49,605
Other intangibles, deferred costs and investments, net	8,005	10,325
Total other assets	217,711	210,044
	\$ 330,935	\$ 322,641
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 2,884	\$ 2,090
Payroll and payroll taxes	6,302	7,441
Other accrued expenses	5,321	6,088
Barter transactions	1,871	1,703
Total current liabilities	16,378	17,322
Deferred income taxes	34,436	31,367
Long-term debt	129,911	133,911
Other liabilities	4,667	3,805
<b>Stockholders equity:</b>		
Common stock	213	213
Additional paid-in capital	50,265	48,971

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Retained earnings	109,004	101,133
Treasury stock	(13,939)	(14,081)
Total stockholders' equity	145,543	136,236
	\$ 330,935	\$ 322,641

Note: The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****SAGA COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>			
	<b>(In thousands, except per share data)</b>			
Net operating revenue	\$ 36,218	\$ 35,791	\$ 106,522	\$ 104,727
Station operating expense	25,975	25,761	78,986	76,833
Corporate general and administrative	2,272	2,225	7,194	6,705
Operating income	7,971	7,805	20,342	21,189
Other expenses, net:				
Interest expense	2,283	2,375	6,861	7,007
Other expense (income), net	60	(75)	142	(645)
Income before income tax	5,628	5,505	13,339	14,827
Income tax provision	2,307	2,241	5,468	6,050
Net income	\$ 3,321	\$ 3,264	\$ 7,871	\$ 8,777
Earnings per share:				
Basic	\$ .17	\$ .16	\$ .39	\$ .43
Diluted	\$ .17	\$ .16	\$ .39	\$ .43
Weighted average common shares	20,112	20,488	20,082	20,515
Weighted average common and common equivalent shares	20,126	20,502	20,111	20,532

See notes to unaudited condensed consolidated financial statements.

Table of Contents**SAGA COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended September 30, 2007                  2006 (Unaudited) (In thousands)</b>	
<b>Cash flows from operating activities</b>		
Cash provided by operating activities	\$ 16,955	\$ 19,600
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(6,180)	(6,836)
Proceeds from sale of assets	27	1,007
Increase in intangibles and other assets	(542)	(4,775)
Acquisition of stations	(6,761)	(779)
Net cash used in investing activities	(13,456)	(11,383)
<b>Cash flows from financing activities</b>		
Payments on long-term debt	(4,000)	(12,000)
Payments for debt issuance costs		(350)
Purchase of shares held in treasury	(126)	(2,131)
Net proceeds from exercise of stock options	190	68
Net cash used in financing activities	(3,936)	(14,413)
Net decrease in cash and cash equivalents	(437)	(6,196)
Cash and cash equivalents, beginning of period	10,799	15,168
Cash and cash equivalents, end of period	\$ 10,362	\$ 8,972

See notes to unaudited condensed consolidated financial statements.



**Table of Contents**

**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 for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States 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, 2007 and the results of operations for the three and nine months ended September 30, 2007 and 2006. Results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

For further information, refer to the consolidated financial statements and notes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2006.

***Income Taxes***

Our effective tax rate is higher than the federal statutory rate as a result of certain non-deductible depreciation and amortization expenses and the inclusion of state taxes in the income tax amount.

***Revenue Recognition***

Revenue from the sale of commercial broadcast time to advertisers is recognized when commercials are broadcast. Revenue is reported net of advertising agency commissions. Agency commissions, when applicable, are based on a stated percentage applied to gross billing.

***Time Brokerage Agreements/Local Marketing 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 Federal Communications Commission ( 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 its own commercial advertising announcements during the time periods specified. We account for TBA s/LMA s under Statement of Financial Accounting Standards ( SFAS ) 13, Accounting for Leases and related interpretations. Revenue and expenses related to TBA s/LMA s are included in the accompanying Condensed Consolidated Statements of Income.

**2. Recent Accounting Pronouncements**

In September 2006, the Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. EITF No. 06-4 requires that for endorsement split-dollar life insurance arrangements that provide a

benefit to an employee that extends to postretirement periods, an employer should recognize a liability for future benefits in accordance with SFAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF Issue No. 06-4 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact of EITF Issue No. 06-4 on its financial position and results of operations.

On September 15, 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities.

**Table of Contents**

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

SFAS 157 also responds to investors' requests for more information about: (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value to any new circumstances. SFAS 157 is effective January 1, 2008, and we are currently evaluating its impact and effect on our financial position, results of operations and cash flows.

On July 13, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes and Related Implementation Issues*, ( FIN 48 ) that provides guidance on the financial statement recognition, measurement, and presentation and disclosure of certain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, financial statements should reflect expected future tax consequences of such positions presuming the taxing authorities have full knowledge of the position and all relevant facts. The Company was required to adopt the provisions of FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial position, results of operations or cash flows.

**3. Intangible Assets and Goodwill**

Under SFAS No. 142 *Accounting for Goodwill and Other Intangible Assets*, ( SFAS 142 ) goodwill and intangible assets deemed to have indefinite lives are not amortized and are subject to annual, or more frequent if impairment indicators arise, impairment tests.

We consider FCC broadcast licenses to have indefinite lives. Factors that we considered in evaluating that the radio and television FCC licenses are indefinite-lived intangible assets under SFAS 142 include the following:

The radio and television broadcasting licenses may be renewed indefinitely at little cost.

The radio and television broadcasting licenses are essential to our business, and we intend to renew our licenses indefinitely.

We have never been denied the renewal of a FCC broadcast license.

We do not believe that there will be any compelling challenge to the renewal of our broadcast licenses.

We do not believe that the technology used in broadcasting will be replaced by another technology in the foreseeable future.

Based on the above, we believe cash flows from our radio and television licenses are expected to continue indefinitely.

Separable 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. Other intangibles are amortized over five to forty years.



**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. 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, 2007:

	<b>Common Stock Issued</b>	
	<b>Class A</b>	<b>Class B</b>
	<b>(Shares in thousands)</b>	
Balance, January 1, 2006	18,792	2,369
Exercised options	11	5
Issuance of restricted stock	89	22
Balance, December 31, 2006	18,892	2,396
Exercised options	43	
Conversion of shares	8	(8)
Issuance of restricted stock	36	5
Forfeiture of restricted stock	(2)	
Balance, September 30, 2007	18,977	2,393

We have a Stock Buy-Back Program (the Buy-Back Program) to allow us to purchase up to \$30,000,000 of our Class A Common Stock. From its inception in 1998 through September 30, 2007, we have repurchased 1,907,210 shares of our Class A Common Stock for approximately \$26,252,000.

**5. Acquisitions**

We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. The condensed consolidated statements of income include the operating results of the acquired stations from their respective dates of acquisition. All acquisitions were accounted for as purchases and, accordingly, the total costs were allocated to the acquired assets and assumed liabilities based on their estimated fair values as of the acquisition dates. The excess of consideration paid over the estimated fair value of net assets acquired has been recorded as goodwill, which is deductible for tax purposes.

***Pending Acquisitions***

On January 21, 2004, we entered into agreements to acquire an FM radio station (WOXL-FM) serving the Asheville, North Carolina market, for approximately \$8,000,000. We are currently providing programming to WOXL-FM under a Sub-Time Brokerage Agreement. This transaction is subject to the approval of the FCC and has been contested. We expect to close on the acquisition when all required approvals are obtained.

On November 1, 2007, we acquired an FM radio station (WCLZ-FM) serving the Portland, Maine market for approximately \$3,500,000. This acquisition is a fourth quarter transaction and accordingly is not included in the accompanying condensed consolidated financial statements at September 30, 2007.

***2007 Acquisitions***

On August 31, 2007, we acquired two radio stations (WKRT-AM and WIII-FM licensed to Cortland, New York, and an FM translator station that rebroadcasts WIII) serving the Ithaca, New York market for approximately \$3,843,000. Due to FCC ownership rules we were not permitted to own WKRT-AM and as part of the transaction we donated WKRT-AM to a non-profit organization.

**Table of Contents**

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On January 2, 2007, we acquired one FM radio station (WCNR-FM) serving the Charlottesville, Virginia market for \$3,330,000. On September 1, 2006 we began providing programming under an LMA to WCNR-FM. We funded this acquisition on December 31, 2006.

On January 16, 2007, we agreed to pay \$50,000 to cancel a clause in our 2003 purchase agreement of WSNI-FM in the Winchendon, Massachusetts market that would require us to pay the seller an additional \$500,000 if within five years of closing we obtained approval from the FCC for a city of license change.

On January 2, 2007, in connection with the 2003 acquisition of one FM radio station (WJZA-FM) serving the Columbus, Ohio market, we paid an additional \$850,000 to the seller upon obtaining approval from the FCC for a city of license change.

***2006 Acquisitions***

On August 7, 2006, we acquired one FM radio station (WTMT-FM) serving the Tazewell, Tennessee market for approximately \$4,186,000 of which approximately \$789,000 was paid in 2006, \$2,047,000 was paid in 2007, and \$1,350,000 is recorded as a note payable at September 30, 2007. We relocated the tower to Weaverville, North Carolina (serving the Asheville, North Carolina market) and started broadcasting in Asheville on June 8, 2007.

In October 2006, we acquired a tower, antenna and transmitter and entered into agreements with another radio station in connection with the city of license change for WJZA-FM mentioned above for approximately \$2,069,000.

**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Condensed Consolidated Balance Sheet of 2007 and 2006 Acquisitions:***

The following unaudited condensed balance sheets represent the estimated fair value assigned to the related assets and liabilities of the 2007 and 2006 acquisitions at their respective acquisition dates. We paid approximately \$6,761,000 and \$779,000 in connection with acquisitions during the nine months ended September 30, 2007 and 2006, respectively.

**Saga Communications, Inc.****Condensed Consolidated Balance Sheet of 2007 and 2006 Acquisitions**

	<b>Acquisitions in</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
<b>Assets Acquired:</b>		
Current assets	\$ 130	\$
Property and equipment	427	1,739
Other assets:		
Broadcast licenses-Radio segment	9,392	1,189
Goodwill-Radio segment	595	843
Other intangibles, deferred costs and investments	45	
Total other assets	10,032	2,032
Total assets acquired	10,589	3,771
<b>Liabilities Assumed:</b>		
Current liabilities	3,828	902
Total liabilities assumed	3,828	902
Net assets acquired	\$ 6,761	\$ 2,869



**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Pro Forma Results of Operations for Acquisitions and Dispositions (Unaudited)***

The following unaudited pro forma results of our operations for the three and nine months ended September 30, 2007 and 2006 assume the 2007 and 2006 acquisitions occurred as of January 1, 2006. The 2006 acquisition and LMA are start up stations and therefore, have no pro forma revenue and expenses. The pro forma results give effect to certain adjustments, including depreciation, amortization of intangible assets, increased interest expense on acquisition debt and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations which would actually have occurred had the combinations been in effect on the dates indicated or which may occur in the future.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except per share data)</b>			
<b>Consolidated Results of Operations</b>				
Net operating revenue	\$ 36,392	\$ 36,082	\$ 107,121	\$ 105,540
Station operating expense	26,226	25,960	79,578	77,438
Corporate general and administrative	2,272	2,225	7,194	6,705
Operating income	7,894	7,897	20,349	21,397
Interest expense	2,283	2,375	6,861	7,007
Other expense (income), net	60	(75)	142	(645)
Income taxes	2,297	2,278	5,492	6,135
Net income	\$ 3,254	\$ 3,319	\$ 7,854	\$ 8,900
Basic earnings per share	\$ .16	\$ .16	\$ .39	\$ .43
Diluted earnings per share	\$ .16	\$ .16	\$ .39	\$ .43

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>			
<b>Radio Broadcasting Segment</b>				
Net operating revenue	\$ 32,078	\$ 31,693	\$ 94,239	\$ 92,913
Station operating expense	22,743	22,499	69,052	67,280
Operating income	\$ 9,335	\$ 9,194	\$ 25,187	\$ 25,633

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>			
<b>Television Broadcasting Segment</b>				
Net operating revenue	\$ 4,314	\$ 4,389	\$ 12,882	\$ 12,627
Station operating expense	3,483	3,461	10,526	10,158
Operating income	\$ 831	\$ 928	\$ 2,356	\$ 2,469

Table of Contents**SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Reconciliation of pro forma segment operating income to pro forma consolidated operating income:*

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Three Months Ended September 30, 2007:</b>				
Net operating revenue	\$ 32,078	\$ 4,314	\$	\$ 36,392
Station operating expense	22,743	3,483		26,226
Corporate general and administrative			2,272	2,272
Operating income (loss)	\$ 9,335	\$ 831	\$ (2,272)	\$ 7,894

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Three Months Ended September 30, 2006:</b>				
Net operating revenue	\$ 31,693	\$ 4,389	\$	\$ 36,082
Station operating expense	22,499	3,461		25,960
Corporate general and administrative			2,225	2,225
Operating income (loss)	\$ 9,194	\$ 928	\$ (2,225)	\$ 7,897

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Nine Months Ended September 30, 2007:</b>				
Net operating revenue	\$ 94,239	\$ 12,882	\$	\$ 107,121
Station operating expense	69,052	10,526		79,578
Corporate general and administrative			7,194	7,194
Operating income (loss)	\$ 25,187	\$ 2,356	\$ (7,194)	\$ 20,349

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
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(In thousands)

**Nine Months Ended September 30, 2006:**

Net operating revenue	\$ 92,913	\$ 12,627	\$	\$ 105,540
Station operating expense	67,280	10,158		77,438
Corporate general and administrative			6,705	6,705
Operating income (loss)	\$ 25,633	\$ 2,469	\$ (6,705)	\$ 21,397

**6. Stock-Based Compensation**

The Company accounts for stock-based awards under the provisions of SFAS No. 123R, *Share-Based Payment* ( SFAS 123R ). Compensation expense of \$259,000, and \$684,000, respectively, and related tax benefits of \$106,000 and \$280,000, respectively, was recognized for the three and nine months ended September 30, 2007. For the three and nine months ended September 30, 2006, the Company recognized compensation expense of \$229,000 and \$556,000, respectively, and related tax benefits of \$94,000 and \$228,000, respectively. Compensation expense is reported in corporate general and administrative expenses in the results of operations.

**Table of Contents**

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Employee Stock Purchase Plan***

We have an employee stock purchase plan (ESPP) for all eligible employees. Each quarter, an eligible employee may elect to withhold up to 10 percent of his or her compensation, up to a maximum of \$5,000, to purchase shares of our stock at a price equal to 85% of the fair value of the stock as of the last day of such quarter. The ESPP will terminate on the earlier of the issuance of 1,562,500 shares pursuant to the ESPP or December 31, 2008. Approximately 15,425 and 19,217 shares were purchased under the ESPP during the nine months ended September 30, 2007 and 2006, respectively. Our ESPP is deemed compensatory under the provisions of SFAS 123R.

***2005 Incentive Compensation Plan***

On May 9, 2005, our stockholders approved the 2005 Incentive Compensation Plan (the 2005 Plan ) which replaces 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.

***2003 Stock Option Plan***

In 2003, we adopted the 2003 Plan, upon expiration of our 1992 Stock Option Plan (the 1992 Plan ) in December 2002, pursuant to which our key employees, including directors who are employees, were eligible to receive grants of options to purchase our Class A Common Stock or Class B Common Stock. Options granted under the 2003 Plan were either incentive stock options (within the meaning of Section 422A of the Internal Revenue Code of 1986) or non-qualified options. With the approval of the 2005 Plan, the 2003 Plan was terminated as to future grants, therefore the shares available for future grants under the 2003 Plan are no longer available.

***1997 Non-Employee Director Stock Option Plan***

In 1997, we adopted the 1997 Non-Employee Director Stock Option Plan (the Directors Plan ) pursuant to which our directors who are not our employees are eligible to receive options. Under the terms of the Directors Plan, on the last business day of January of each year during the term of the Directors Plan, in lieu of their directors' retainer for the previous year, each eligible director shall automatically be granted an option to purchase that number of our shares of Class A Common Stock equal to the amount of the retainer divided by the fair market value of our Common Stock on the last trading day of the December immediately preceding the date of grant less \$.01 per share. The option exercise price is \$.01 per share. Options granted under the Directors Plan are non-qualified stock options, shall be immediately vested and become exercisable at the written election of the director. The options expire on the earlier of (i) 10 years from the date of grant or (ii) the March 16th following the calendar year in which they first become exercisable. This plan expired on May 12, 2007.

Effective January 1, 2007, each director who is not an employee shall receive cash for his or her services as a director.

**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes the stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2007:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2006	2,531,257	\$ 12.99	5.0	\$ 353,721
Granted	184,381	9.49		
Exercised	(24,853)	7.64		
Forfeited/expired	(8,033)	10.50		
Outstanding at September 30, 2007	2,682,752	\$ 12.81	4.6	\$
Exercisable at September 30, 2007	1,944,489	\$ 13.79	3.1	\$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2007:

	<b>Number of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested at December 31, 2006	713,235	\$ 5.20
Granted	184,381	4.82
Vested	(151,820)	5.32
Forfeited/canceled	(7,533)	5.07
Non-vested at September 30, 2007	738,263	\$ 5.09

We calculated the fair value of the each option award on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for each respective period:

<b>2007 Grants</b>	<b>2006 Grants</b>
------------------------	------------------------

Weighted average grant date fair value per share	\$ 4.82	\$ 4.49
Expected volatility	36.50%	37.19%
Expected term of options (years)	7.9	7.8
Risk-free interest rate	4.76%	4.27%
Dividend yield	0%	0%

The estimated expected volatility, expected term of options and estimated annual forfeiture rates were determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes the restricted stock transactions for nine months ended September 30, 2007:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2006	158,498	\$ 10.55
Granted	40,972	9.49
Vested	(33,724)	10.81
Forfeited	(1,674)	10.28
Non-vested and outstanding at September 30, 2007	164,072	\$ 10.24

The Company had approximately \$307,000 and \$246,000 of total compensation expense related to restricted stock-based arrangements for the nine months ended September 30, 2007 and 2006, respectively.

The following summarizes the stock option transactions for the Directors Plans for the nine month ended September 30, 2007:

	<b>Number of Options</b>	<b>Weighted Average Price per Share</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2006	19,136	\$ 0.009	\$ 183,726
Granted	22,428	0.010	
Exercised	(18,484)	0.010	
Outstanding and exercisable at September 30, 2007	23,080	\$ 0.009	\$ 169,192

**7. Long-Term Debt**

Long term debt consisted of the following:

<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>(In thousands)</b>	



Credit Agreement:

Reducing revolver facility	\$ 128,850	\$ 132,850
Secured debt of affiliate	1,061	1,061
	\$ 129,911	\$ 133,911

Our Credit Agreement is a \$200,000,000 reducing revolving line of credit maturing on July 29, 2012. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries' stock and by a guarantee of our subsidiaries. We have approximately \$71,150,000 of unused borrowing capacity under the Credit Agreement at September 30, 2007.

On March 31, 2008, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2008. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. In addition, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios.

Table of Contents**SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2007) that, among other things, requires us to maintain specified financial ratios and impose certain limitations on us with respect to (i) the incurrence of additional indebtedness; (ii) acquisitions, except under specified conditions; (iii) the incurrence of additional liens, except those relating to capital leases and purchase money indebtedness; (iv) the disposition of assets; (v) the payment of cash dividends; and (vi) mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement. The Credit Agreement allows for the payment of dividends provided certain requirements are met.

**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 of our radio stations and five radio information networks. The Television segment includes three markets and consists of five 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.

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Three Months Ended September 30, 2007:</b>				
Net operating revenue	\$ 31,904	\$ 4,314	\$	\$ 36,218
Station operating expense	22,492	3,483		25,975
Corporate general and administrative			2,272	2,272
Operating income (loss)	\$ 9,412	\$ 831	\$ (2,272)	\$ 7,971
Depreciation and amortization	\$ 1,608	\$ 405	\$ 48	\$ 2,061

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Three Months Ended September 30, 2006:</b>				
Net operating revenue	\$ 31,402	\$ 4,389	\$	\$ 35,791
Station operating expense	22,300	3,461		25,761
Corporate general and administrative			2,225	2,225

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Operating income (loss)	\$ 9,102	\$ 928	\$ (2,225)	\$ 7,805
Depreciation and amortization	\$ 1,494	\$ 409	\$ 48	\$ 1,951

**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Nine Months Ended September 30, 2007:</b>				
Net operating revenue	\$ 93,640	\$ 12,882	\$	\$ 106,522
Station operating expense	68,460	10,526		78,986
Corporate general and administrative			7,194	7,194
Operating income (loss)	\$ 25,180	\$ 2,356	\$ (7,194)	\$ 20,342
Depreciation and amortization	\$ 4,653	\$ 1,194	\$ 146	\$ 5,993
Total assets	\$ 283,604	\$ 32,043	\$ 15,288	\$ 330,935

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Nine Months Ended September 30, 2006:</b>				
Net operating revenue	\$ 92,100	\$ 12,627	\$	\$ 104,727
Station operating expense	66,675	10,158		76,833
Corporate general and administrative			6,705	6,705
Operating income (loss)	\$ 25,425	\$ 2,469	\$ (6,705)	\$ 21,189
Depreciation and amortization	\$ 4,569	\$ 1,215	\$ 144	\$ 5,928
Total assets	\$ 268,463	\$ 31,986	\$ 19,699	\$ 320,148

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management's Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2006. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are, therefore, reflected only in our discussion of consolidated results.

Our discussion of the results of operations of our operating segments focuses on their operating income because we manage our operating segments primarily on their operating income. 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 of our radio stations and five radio information networks. The Television segment includes three markets and consists of five television stations and four LPTV stations.

**General**

We are a broadcast company primarily engaged in acquiring, developing and operating radio and television stations. We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. We review acquisition opportunities on an ongoing basis.

For additional information with respect to acquisitions, see "Liquidity and Capital Resources" below.

**Radio Segment**

Our radio segment's primary source of revenue is from the sale of advertising for broadcast on our stations. Depending on the format of a particular radio station, there are a predetermined number of advertisements available to be broadcast each hour.

Most advertising contracts are short-term, and generally run only for a few weeks. Most of our revenue is generated from local advertising, which is sold primarily by each radio market's sales staff. For the nine months ended September 30, 2007 and 2006, approximately 86% and 85%, respectively, of our gross radio segment revenue was from local advertising. To generate national advertising sales, we engage an independent advertising sales representative firm that specializes in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year.

Our net operating revenue, station operating expense and operating income varies from market to market based upon the related market's rank or size which is based upon population and the available radio advertising revenue in that particular market.

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers. In a number of our markets this is measured by periodic reports generated by independent national rating services. In the remainder of our

markets it is measured by the results advertisers obtain through the actual running of an advertising schedule. Advertisers measure these results based on increased demand for their goods or services and/or actual revenues generated from such demand. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming, local market competition, target marketing capability of radio compared to other advertising media and signal strength. Because reaching a large and demographically attractive audience is crucial to a station's financial success, we endeavor to develop strong listener loyalty. When we acquire and/or begin to operate a station or group of stations we generally increase programming

**Table of Contents**

and advertising and promotion expenses to increase our share of our target demographic audience. Our strategy sometimes requires levels of spending commensurate with the revenue levels we plan on achieving in two to five years. During periods of economic downturns, or when the level of advertising spending is flat or down across the industry, this strategy may result in the appearance that our cost of operations are increasing at a faster rate than our growth in revenues, until such time as we achieve our targeted levels of revenue for the acquired station or group of stations.

The number of advertisements that can be broadcast without jeopardizing listening levels (and the resulting ratings) is limited in part by the format of a particular radio station. Our stations strive to maximize revenue by constantly managing the number of commercials available for sale and adjusting prices based upon local market conditions and ratings. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of the day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year. Any change in our revenue, with the exception of those instances where stations are acquired or sold, is generally the result of inventory sell out ratios and pricing adjustments, which are made to ensure that the station efficiently utilizes available inventory.

Our radio stations employ a variety of programming formats. We periodically perform market research, including music evaluations, focus groups and strategic vulnerability studies. Our stations also employ audience promotions to further develop and secure a loyal following. We believe that the diversification of formats on our radio stations helps to insulate us from the effects of changes in musical tastes of the public on any particular format.

The primary operating expenses involved in owning and operating radio stations are employee salaries, depreciation, programming expenses, advertising costs and promotion expenses.

During the nine month periods ended September 30, 2007 and 2006 and the years ended December 31, 2006 and 2005, our Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 62%, 70%, 64% and 75%, respectively, of our consolidated operating income. An adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole. A decrease in the total available radio advertising dollars in the Columbus, Ohio and Norfolk, Virginia markets has resulted in a decline in our revenue and related operating income in our radio stations there. Additionally, we are experiencing ratings softness in the Columbus and Norfolk markets which has also affected revenue. None of our television markets represented more than 15% or more of our consolidated operating income. The following tables describe the percentage of our consolidated operating income represented by each of these markets:

<b>Market:</b>	<b>Percentage of Consolidated Operating Income for the Nine Months Ended</b>		<b>Percentage of Consolidated Operating Income for the Years Ended</b>	
	<b>September 30, 2007</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>
Columbus, Ohio	8%	10%	10%	13%

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Manchester, New Hampshire	14%	15%	14%	15%
Milwaukee, Wisconsin	33%	33%	30%	33%
Norfolk, Virginia	7%	12%	10%	14%

We utilize certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP) to assess our financial performance. For example, we evaluate the performance of our markets based on station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization). Station operating income is generally recognized by the broadcasting industry as a measure of performance, is used by analysts who



**Table of Contents**

report on the performance of the broadcasting industry and it serves as an indicator of the market value of a group of stations. In addition, we use it to evaluate individual stations, market-level performance, overall operations and as a primary measure for incentive based compensation of executives and other members of management. Station operating income is not necessarily indicative of amounts that may be available to us for debt service requirements, other commitments, reinvestment or other discretionary uses. Station operating income is not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for our results of operations presented on a GAAP basis.

During the nine month periods ended September 30, 2007 and 2006 and the years ended December 31, 2006 and 2005, the radio stations in our four largest markets when combined, represented approximately 41%, 47%, 45% and 48%, respectively, of our consolidated station operating income. The following tables describe the percentage of our consolidated station operating income represented by each of these markets:

	Percentage of Consolidated Station Operating Income (*) for the Nine Months Ended		Percentage of Consolidated Station Operating Income (*) for the Years Ended	
	September 30, 2007	2006	2006	2005
<b>Market:</b>				
Columbus, Ohio	6%	8%	8%	9%
Manchester, New Hampshire	9%	10%	9%	9%
Milwaukee, Wisconsin	21%	21%	21%	21%
Norfolk, Virginia	5%	8%	7%	9%

\* Operating income plus corporate general and administrative, depreciation and amortization

**Television Segment**

Our television segment's primary source of revenue is from the sale of advertising for broadcast on our stations. The number of advertisements available for broadcast on our television stations is limited by network affiliation and syndicated programming agreements and, with respect to children's programs, federal regulation. Our television stations' local market managers determine only the number of advertisements to be broadcast in locally produced programs, which are primarily news programming and occasionally local sports or information shows.

Our net operating revenue, station operating expense and operating income vary from market to market based upon the market's rank or size, which is based upon population, available television advertising revenue in that particular market, and the popularity of programming being broadcast.

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers, as measured principally by periodic reports by independent national rating services. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming through locally produced news, sports and weather and as a result of syndication and network affiliation agreements, local market competition, the ability of television broadcasting to reach a mass appeal market compared to other advertising media, and signal strength including cable/satellite coverage, and government regulation and policies. When we acquire and/or begin operating a station or group of stations we generally increase programming expenses including local news, sports and weather programming, new syndicated programming, and advertising and promotion expenses to increase our viewership. Our strategy sometimes requires levels of spending commensurate with the revenue levels we plan on achieving in two to five years. During periods of economic downturns, or when the level of advertising spending is flat or down across the industry, this strategy may result in the appearance that our

**Table of Contents**

cost of operations are increasing at a faster rate than our growth in revenues, until such time as we achieve our targeted levels of revenue for the acquired/operated station or group of stations.

Our stations strive to maximize revenue by continually adjusting prices for commercial spots based upon local market conditions, advertising demand and ratings. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of the day, the total number of advertisements broadcast on a station generally does not vary significantly from year to year. Any change in our revenue, with the exception of those instances where stations are acquired or sold, is generally the result of pricing adjustments, which are made to ensure that the station efficiently utilizes available inventory.

Because audience ratings in the local market are crucial to a station's financial success, we endeavor to develop strong viewer loyalty by providing locally produced news, weather and sports programming. We believe that this emphasis on the local market provides us with the viewer loyalty we are trying to achieve.

Most of our revenue is generated from local advertising, which is sold primarily by each television market's sales staff. For the nine months ended September 30, 2007 and 2006, approximately 80% and 81%, respectively, of our gross television revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year.

The primary operating expenses involved in owning and operating television stations are employee salaries including commissions, depreciation, programming expenses including news production and the cost of acquiring certain syndicated programming, advertising costs and promotion expenses.

**Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006*****Results of Operations***

The following tables summarize our results of operations for the three months ended September 30, 2007 and 2006.

**Consolidated Results of Operations**

	<b>Three Months Ended</b>		<b>\$</b>	<b>%</b>
	<b>September 30,</b>	<b>September 30,</b>	<b>Increase</b>	<b>Increase</b>
	<b>2007</b>	<b>2006</b>	<b>(Decrease)</b>	<b>(Decrease)</b>
	<b>(In thousands, except percentages and per share information)</b>			
Net operating revenue	\$ 36,218	\$ 35,791	\$ 427	1.2%
Station operating expense	25,975	25,761	214	0.8%
Corporate G&A	2,272	2,225	47	2.1%
Operating income	7,971	7,805	166	2.1%
Interest expense	2,283	2,375	(92)	(3.9)%
Other expense (income), net	60	(75)	135	N/M
Income taxes	2,307	2,241	66	2.9%

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Net income	\$	3,321	\$	3,264	\$	57	1.7%
Earnings per share (basic and diluted)	\$	.17	\$	.16	\$	.01	6.3%

21

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Table of Contents**Radio Broadcasting Segment**

	<b>Three Months Ended</b>		<b>\$ Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
	<b>September 30, 2007</b>	<b>September 30, 2006</b>		
	<b>(In thousands, except percentages)</b>			
Net operating revenue	\$ 31,904	\$ 31,402	\$ 502	1.6%
Station operating expense	22,492	22,300	192	0.9%
Operating income	\$ 9,412	\$ 9,102	\$ 310	3.4%

**Television Broadcasting Segment**

	<b>Three Months Ended</b>		<b>\$ Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
	<b>September 30, 2007</b>	<b>September 30, 2006</b>		
	<b>(In thousands, except percentages)</b>			
Net operating revenue	\$ 4,314	\$ 4,389	\$ (75)	(1.7)%
Station operating expense	3,483	3,461	22	0.6%
Operating income	\$ 831	\$ 928	\$ (97)	(10.5)%

N/M = Not Meaningful

***Reconciliation of segment operating income to consolidated operating income:***

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Three Months Ended September 30, 2007:</b>				
Net operating revenue	\$ 31,904	\$ 4,314	\$	\$ 36,218
Station operating expense	22,492	3,483		25,975
Corporate general and administrative			2,272	2,272
Operating income (loss)	\$ 9,412	\$ 831	\$ (2,272)	\$ 7,971

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Three Months Ended September 30, 2006:</b>				
Net operating revenue	\$ 31,402	\$ 4,389	\$	\$ 35,791
Station operating expense	22,300	3,461		25,761
Corporate general and administrative			2,225	2,225
Operating income (loss)	\$ 9,102	\$ 928	\$ (2,225)	\$ 7,805

***Consolidated***

For the three months ended September 30, 2007, consolidated net operating revenue was \$36,218,000 compared with \$35,791,000 for the three months ended September 30, 2006, an increase of \$427,000 or 1%. We had an increase of approximately \$125,000 in revenue generated by stations that we owned or operated for the comparable period in 2006 ( same station ), and an increase of approximately \$302,000 in revenue attributable to stations we did not own and operate for the entire comparable period. The increase in same station revenue was attributable primarily to a 7% increase in national revenue (excluding political), offset by a decrease in gross political revenue of \$422,000.

**Table of Contents**

Station operating expense was \$25,975,000 for the three months ended September 30, 2007, compared with \$25,761,000 for the three months ended September 30, 2006, an increase of approximately \$214,000. Approximately \$108,000 of the increase was attributable to stations we owned and operated for the entire comparable period, and \$106,000 is attributable to those stations we did not own or operate for the entire comparable period. The increase in same station operating expense was primarily due to an increase in depreciation and an increase in station general and administrative expense, partially offset by a decrease in programming costs.

Operating income for the three months ended September 30, 2007 was \$7,971,000 compared to \$7,805,000 for the three months ended September 30, 2006, an increase of approximately \$166,000 or 2%. The increase in operating revenue is directly attributable to stations we did not own and operate for the entire comparable period.

We generated net income of approximately \$3,321,000 (\$.17 per share on a fully diluted basis) during the three months ended September 30, 2007, compared with \$3,264,000 (\$.16 per share on a fully diluted basis) for the three months ended September 30, 2006, an improvement of approximately \$57,000 or 2%. The increase was the result of the \$166,000 increase in operating income as discussed above and a \$92,000 decrease in interest expense offset by an increase of \$135,000 in other expense and a \$66,000 increase in income tax expense. The decrease in interest expense resulted primarily from a decrease in debt. The increase in income tax expense is directly attributable to the increase in pre-tax income.

***Radio Segment***

For the three months ended September 30, 2007, net operating revenue of the radio segment was \$31,904,000 compared with \$31,402,000 for the three months ended September 30, 2006, an increase of \$502,000 or 2%. During 2007 we had an increase in net operating revenue of approximately \$302,000 attributable to stations we did not own and operate for the entire comparable period. We had an increase of approximately \$200,000 or less than 1% in net revenue generated by radio stations that we owned or operated for the comparable period in 2006 ( same station ). The increase in same station revenue was directly attributable to an increase in same station local revenue. Although same station national revenue increased approximately 4%, this increase was offset by same station gross political revenue decreases of approximately \$220,000.

Station operating expense for the radio segment was \$22,492,000 for the three months ended September 30, 2007, compared with \$22,300,000 for the three months ended September 30, 2006, an increase of approximately \$192,000. The increase in station operating expense for the radio segment represents an increase of approximately \$86,000 in same station operating expense and an increase of \$106,000 from the operation of radio stations that we did not own or operate for the comparable period in 2006. The increase in same station operating expense was primarily due to an increase in depreciation and an increase in station general and administrative expense, partially offset by a decrease in programming costs.

Operating income in the radio segment for the three months ended September 30, 2007 was \$9,412,000 compared to \$9,102,000 for the three months ended September 30, 2006, an increase of approximately \$310,000 or 3%. The increase was the result of a \$502,000 increase in net operating revenue offset by a \$192,000 increase in station operating expense discussed above.

***Television Segment***

For the three months ended September 30, 2007, net operating revenue of our television segment was \$4,314,000 compared with \$4,389,000 for the three months ended September 30, 2006, a decrease of \$75,000 or 2%. The majority of the decline in net operating revenue was attributable to an increase in national revenue (excluding political) of approximately 21%, offset by a decrease in gross political revenue of approximately \$202,000.





**Table of Contents**

Station operating expense in the television segment for the three months ended September 30, 2007 was \$3,483,000, compared with \$3,461,000 for the three months ended September 30, 2006, an increase of approximately \$22,000.

Operating income in the television segment for the three months ended September 30, 2007 was \$831,000 compared to \$928,000 for the three months ended September 30, 2006, a decrease of approximately \$97,000. The decrease was a direct result of the decrease in net operating revenue and the small increase in station operating expense.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

The following tables summarize our results of operations for the nine months ended September 30, 2007 and 2006.

**Consolidated Results of Operations**

	Nine Months Ended		\$	%
	September 30, 2007	September 30, 2006		
	(In thousands, except percentages and per share information)			
Net operating revenue	\$ 106,522	\$ 104,727	\$ 1,795	1.7%
Station operating expense	78,986	76,833	2,153	2.8%
Corporate G&A	7,194	6,705	489	7.3%
Operating income	20,342	21,189	(847)	(4.0)%
Interest expense	6,861	7,007	(146)	(2.1)%
Other expense (income), net	142	(645)	787	N/M
Income taxes	5,468	6,050	(582)	(9.6)%
Net income	\$ 7,871	\$ 8,777	\$ (906)	(10.3)%
Earnings per share:				
Basic	\$ .39	\$ .43	\$ (.04)	(9.3)%
Diluted	\$ .39	\$ .43	\$ (.04)	(9.3)%

**Radio Broadcasting Segment**

	Nine Months Ended		\$	%
	September 30, 2007	September 30, 2006		
	(In thousands, except percentages)			
Net operating revenue	\$ 93,640	\$ 92,100	\$ 1,540	1.7%
Station operating expense	68,460	66,675	1,785	2.7%

Operating income	\$ 25,180	\$ 25,425	\$ (245)	(1.0)%
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Table of Contents**Television Broadcasting Segment**

	<b>Nine Months Ended</b>		<b>\$ Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
	<b>September 30, 2007</b>	<b>September 30, 2006</b>		
	<b>(In thousands, except percentages)</b>			
Net operating revenue	\$ 12,882	\$ 12,627	\$ 255	2.0%
Station operating expense	10,526	10,158	368	3.6%
Operating income	\$ 2,356	\$ 2,469	\$ (113)	(4.6)%

N/M = Not Meaningful

***Reconciliation of segment operating income to consolidated operating income:***

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Nine Months Ended September 30, 2007:</b>				
Net operating revenue	\$ 93,640	\$ 12,882	\$	\$ 106,522
Station operating expense	68,460	10,526		78,986
Corporate general and administrative			7,194	7,194
Operating income (loss)	\$ 25,180	\$ 2,356	\$ (7,194)	\$ 20,342

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Nine Months Ended September 30, 2006:</b>				
Net operating revenue	\$ 92,100	\$ 12,627	\$	\$ 104,727
Station operating expense	66,675	10,158		76,833
Corporate general and administrative			6,705	6,705
Operating income (loss)	\$ 25,425	\$ 2,469	\$ (6,705)	\$ 21,189

***Consolidated***

For the nine months ended September 30, 2007, consolidated net operating revenue was \$106,522,000 compared with \$104,727,000 for the nine months ended September 30, 2006, an increase of \$1,795,000 or 2%. Net operating revenue generated by stations that we owned and operated for the entire comparable period in 2006 ( same station ) increased by 1% or approximately \$1,304,000. The majority of the increase in same station revenue was attributable to same station local revenue increases of approximately 2%, offset by a decrease in same station gross political revenue of approximately \$595,000. During 2007 we had an increase of \$491,000 in net revenue generated by stations that we did not own or operate for the comparable period in 2006.

Station operating expense increased by \$2,153,000 or 3% to \$78,986,000 for the nine months ended September 30, 2007, compared with \$76,833,000 for the nine months ended September 30, 2006. Station operating expense increased approximately \$367,000 from the operation of radio stations that we did not own or operate for the comparable period in 2006. The balance of the increase, \$1,786,000 was from same station operating expense, \$1,302,000 of which was related to our decision to continue to invest in the future of our business with additional advertising, promotion and selling expenses, including additional sales compensation.

Operating income for the nine months ended September 30, 2007 was \$20,342,000 compared to \$21,189,000 for the nine months ended September 30, 2006, a decline of approximately \$847,000 or 4%. The decrease was directly attributable to the increase in station operating expense and an increase in corporate general and administrative charges of approximately \$489,000 or 7%. The increase in corporate general and

**Table of Contents**

administrative charges results primarily from an increase in stock based compensation expense of \$189,000 and \$327,000 related to the creation of an Interactive Media department.

We generated net income of approximately \$7,871,000 (\$.39 per share on a fully diluted basis) during the nine months ended September 30, 2007, compared with \$8,777,000 (\$.43 per share on a fully diluted basis) for the nine months ended September 30, 2006, a decrease of approximately \$906,000 or 10%. The decrease was the result of the decrease in operating income discussed above, a \$787,000 increase in other expense, offset by a decrease in interest expense of approximately \$146,000, and a decrease in income tax expense of approximately \$582,000. Other expense (income) in the prior year period included a \$500,000 gain recognized for a slight alteration to one of our Keene, New Hampshire FM s signal patterns and a \$315,000 gain on insurance proceeds related to a Springfield, Illinois tower destroyed by a tornado. The decrease in income tax expense was directly attributable to operating performance.

***Radio Segment***

For the nine months ended September 30, 2007, net operating revenue in the radio segment was \$93,640,000 compared with \$92,100,000 for the nine months ended September 30, 2006, an increase of \$1,540,000 or 2%. Net operating revenue generated by radio stations that we owned and operated for the entire comparable period increased by approximately \$1,049,000 or 1%, and approximately \$491,000 increase in revenue was generated by radio stations and radio networks that we did not own or operate for the comparable period in 2006. The majority of the increase in same station revenue was attributable to same station local revenue increases of approximately 2%, offset by decreases in same station national revenue and same station gross political revenue of approximately 2% and 27%, respectively. We had significantly increased operating revenue (10% or greater than comparable period) in our Clarksville, Champaign, Ithaca and Keene markets, which were offset by significantly decreased revenue in our Columbus and Norfolk markets.

Station operating expense in our radio segment increased by \$1,785,000 or 3% to \$68,460,000 for the nine months ended September 30, 2007, compared with \$66,675,000 for the nine months ended September 30, 2006. On a same station basis, station operating expense increased by approximately \$1,418,000 or 2%. An increase of approximately \$1,048,000 was attributable to higher advertising, promotion, selling and commission expense. Radio segment station operating expense increased by approximately \$367,000 from the operation of stations that we did not own or operate for the comparable period in 2006.

Operating income in the radio segment for the nine months ended September 30, 2007 was \$25,180,000 compared to \$25,425,000 for the nine months ended September 30, 2006, a decrease of approximately \$245,000 or 1%. The decrease was the result of the increase in station operating expense.

***Television Segment***

For the nine months ended September 30, 2007, net operating revenue in the television segment was \$12,882,000 compared with \$12,627,000 for the nine months ended September 30, 2006, an increase of \$255,000 or 2%. The improvement in revenue was attributable to an increase in gross national revenue and gross local revenue of approximately 7% and 4%, respectively, partially offset by a \$412,000 decrease in gross political revenue.

Station operating expense in our television segment increased by \$368,000 or 4% to \$10,526,000 for the nine months ended September 30, 2007, compared with \$10,158,000 for the nine months ended September 30, 2006. The increase in station operating expense was primarily attributable to increased selling and commission expenses as a result of the increase in revenue.

Operating income in the television segment for the nine months ended September 30, 2007 was \$2,356,000 compared to \$2,469,000 for the nine months ended September 30, 2006, a decrease of approximately \$113,000 or 5%. The decrease was the result of the increase in station operating expense.

## **Table of Contents**

### **Forward-Looking Statements**

Statements contained in this Form 10-Q that are not historical facts are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as believes, anticipates, estimates, plans, expects, and similar expressions are intended to identify forward-looking statements. These statements are made as of the date of this report or as otherwise indicated, based on current expectations. We undertake no obligation to update this information. A number of important factors could cause our actual results for 2007 and beyond to differ materially from those expressed in any forward-looking statements made by or on our behalf. Forward looking statements are not guarantees of future performance as they involve a number of risks, uncertainties and assumptions that may prove to be incorrect and that may cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks, uncertainties and assumptions that may affect our performance include our financial leverage and debt service requirements, dependence on key personnel, dependence on key stations, U.S. and local economic conditions, our ability to successfully integrate acquired stations, regulatory requirements, new technologies, natural disasters and terrorist attacks. We cannot be sure that we will be able to anticipate or respond timely to changes in any of these factors, which could adversely affect the operating results in one or more fiscal quarters. Results of operations in any past period should not be considered, in and of itself, indicative of the results to be expected for future periods. Fluctuations in operating results may also result in fluctuations in the price of our stock.

For a more complete description of the prominent risks and uncertainties inherent in our business, see Management's Discussion and Analysis of Financial Condition and Results of Operations, Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006.

### **Liquidity and Capital Resources**

#### ***Debt Arrangements and Debt Service Requirements***

As of September 30, 2007, we had \$129,911,000 of long-term debt outstanding and approximately \$71,150,000 of unused borrowing capacity under our Credit Agreement.

The Credit Agreement is a \$200,000,000 reducing revolving line of credit maturing on July 29, 2012. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries' stock and by a guarantee of our subsidiaries.

The Credit Agreement may be used for general corporate purposes, including working capital, capital expenditures, permitted acquisition and related transaction expenses and permitted stock buybacks. On March 31, 2008, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2008. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. In addition, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2007) that, among other things, requires us to maintain specified financial ratios and impose certain limitations on us with respect to (i) the incurrence of additional indebtedness; (ii) acquisitions, except under specified conditions; (iii) the incurrence of additional liens, except those relating to capital leases and purchase money indebtedness; (iv) the disposition of assets; (v) the payment of cash dividends; and (vi) mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement. The Credit Agreement allows for the payment of dividends provided certain

requirements are met.



**Table of Contents**

***Sources and Uses of Cash***

During the nine months ended September 30, 2007 and 2006, we had net cash flows from operating activities of \$16,955,000 and \$19,600,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest under the Credit Agreement. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

The following acquisitions in 2007 were financed through funds generated from operations:

On January 16, 2007, we agreed to pay \$50,000 to cancel a clause in our 2003 purchase agreement of WSNI-FM in the Winchendon, Massachusetts market that would require us to pay the seller an additional \$500,000 if within five years of closing we obtained approval from the FCC for a city of license change.

On January 2, 2007, in connection with the 2003 acquisition of one FM radio station (WJZA-FM) serving the Columbus, Ohio market, we paid an additional \$850,000 to the seller upon obtaining approval from the FCC for a city of license change.

On August 7, 2006, we acquired one FM radio station (WTMT-FM) serving the Tazewell, Tennessee market for approximately \$4,186,000 of which approximately \$789,000 was paid in 2006, \$2,047,000 was paid in 2007, and \$1,350,000 is recorded as a note payable at September 30, 2007. We relocated the tower to Weaverville, North Carolina (serving the Asheville, North Carolina market) and started broadcasting in Asheville on June 8, 2007.

On August 31, 2007, we acquired two radio stations (WKRT-AM and WIII-FM licensed to Cortland, New York, and an FM translator station that rebroadcasts WIII) serving the Ithaca, New York market for approximately \$3,843,000. Due to FCC ownership rules we were not permitted to own WKRT-AM and as part of the transaction we donated WKRT-AM to a non-profit organization.

The following transactions were either pending at September 30, 2007 or were entered into subsequent to that date, which we expect to finance through funds generated from operations and additional borrowings under our Credit Agreement:

On January 21, 2004, we entered into agreements to acquire one FM radio station (WOXL-FM) serving the Asheville, North Carolina market, for approximately \$8,000,000. We are currently providing programming to WOXL-FM under a Sub-Time Brokerage Agreement. This transaction is subject to the approval of the FCC and has been contested. We expect to close on the acquisitions when all required approvals are obtained.

On November 1, 2007, we acquired an FM radio station (WCLZ-FM) serving the Portland, Maine market for approximately \$3,500,000. This acquisition is a fourth quarter transaction and accordingly is not included in the accompanying condensed consolidated financial statements at September 30, 2007.

We continue to actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties.

In May 2005, our board of directors authorized an increase to our Stock Buy-Back Program so that we may purchase a total of \$30,000,000 of our Class A Common Stock. From the inception of the Stock Buy-Back program in 1998 through September 30, 2007, we have repurchased 1,907,210 shares of our Class A Common Stock for approximately

\$26,252,000. Approximately 12,800 shares were repurchased during the nine months ended September 30, 2007 for \$126,000.

We anticipate that any future acquisitions of radio and television stations and purchases of Class A Common Stock under the Stock Buy-Back Program will be financed through funds generated from operations, borrowings under the Credit Agreement, additional debt or equity financing, or a combination thereof. However, there can be no assurances that any such financing will be available on acceptable terms, if at all.

## **Table of Contents**

Our capital expenditures, exclusive of acquisitions, for the nine months ended September 30, 2007 were approximately \$6,180,000 (\$6,836,000 in 2006). We anticipate 2007 capital expenditures to be approximately \$10,500,000, which we expect to finance through funds generated from operations or additional borrowings under the Credit Agreement.

### ***Summary Disclosures about Contractual Obligations and Commercial Commitments***

We have future cash obligations under various types of contracts under the terms of our Credit Agreement, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary Disclosures About Contractual Obligations in our Annual Report on Form 10-K for the year ended December 31, 2006.

There have been no material changes to such contracts/commitments during the nine months ended September 30, 2007 other than those described above. We anticipate that the above contractual cash obligations will be financed through funds generated from operations or additional borrowings under the Credit Agreement, or a combination thereof.

### ***Critical Accounting Policies and Estimates***

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There have been no significant changes to our critical accounting policies that are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2006.

### ***Inflation***

The impact of inflation on our operations has not been significant to date. There can be no assurance that a high rate of inflation in the future would not have an adverse effect on our operations.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk and Risk Management Policies and Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2006 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2006 Annual Report on Form 10-K.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause the material information required to be disclosed by the Company in the reports that it files or submits under the

Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32. Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

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

SAGA COMMUNICATIONS, INC.

Date: November 9, 2007

/s/ SAMUEL D. BUSH

Samuel D. Bush  
*Senior Vice President, Chief Financial Officer and  
Treasurer (Principal Financial Officer)*

Date: November 9, 2007

/s/ CATHERINE BOBINSKI

Catherine Bobinski  
*Vice President, Corporate Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)*

**Table of Contents**

**INDEX TO EXHIBITS**

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