SAGA COMMUNICATIONS INC
Form 10-Q
May 14, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the Quarterly Period ended March 31, 2010

or

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

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 o No o.

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company þ

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

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 May 10, 2010 was 3,660,141 and 598,643, respectively.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2010 (Unaudited)	December 31, 2009 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 16,426**	$ 12,899
Accounts receivable, net	**16,254**	19,096
Prepaid expenses and other current assets	**1,701**	2,345
Barter transactions	**2,025**	1,681
Deferred income taxes	**833**	873
Total current assets	**37,239**	36,894
Property and equipment	**158,345**	158,011
Less accumulated depreciation	**90,193**	88,795
Net property and equipment	**68,152**	69,216
Other assets:		
Broadcast licenses, net	**90,552**	90,552
Other intangibles, deferred costs and investments, net	**6,880**	5,689
Total other assets	**97,432**	96,241
	$ 202,823	$ 202,351
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**$ 1,081**	$ 1,345
Payroll and payroll taxes	**5,496**	5,494
Other accrued expenses	**4,095**	3,422
Barter transactions	**2,164**	1,802
Current portion of long-term debt	**15,200**	17,078
Total current liabilities	**28,036**	29,141
Deferred income taxes	**3,047**	1,907
Long-term debt	**100,878**	104,000
Other liabilities	**3,232**	3,210
Stockholders equity		
Common stock	**53**	53
Additional paid-in capital	**49,669**	49,371
Retained earnings	**46,381**	43,064
Treasury stock	**(28,473)**	(28,395)

Total stockholders equity	**67,630**	64,093
	$ 202,823	$ 202,351

Note: The balance sheet at December 31, 2009 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.

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SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2010	2009
	(Unaudited) (In thousands, except per share data)	
Net operating revenue	**$ 27,987**	$ 26,124
Station operating expenses	**22,560**	23,940
Corporate general and administrative	**1,882**	2,067
Operating income	**3,545**	117
Other expenses, net:		
Interest expense	**1,519**	773
Other income	**(3,596)**	(4)
Income (loss) before income tax	**5,622**	(652)
Income tax provision (benefit)	**2,305**	(290)
Net income (loss)	**$ 3,317**	$ (362)
Earnings (loss) per share		
Basic	**$ 0.78**	$ (0.09)
Diluted	**$ 0.78**	$ (0.09)
Weighted average common shares	**4,228**	4,161
Weighted average common and common equivalent shares	**4,229**	4,161

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2010	2009
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	**$ 7,342**	$ 5,053
Cash flows from investing activities:		
Acquisition of property and equipment	**(845)**	(1,065)
Proceeds from license downgrade	**3,561**	
Other investing activities	**50**	27
Net cash provided by (used in) investing activities	**2,766**	(1,038)
Cash flows from financing activities:		
Payments on long-term debt	**(5,000)**	(2,000)
Payments for debt issuance costs	**(1,503)**	(967)
Purchase of shares held in treasury	**(78)**	(20)
Net cash used in financing activities	**(6,581)**	(2,987)
Net increase in cash and cash equivalents	**3,527**	1,028
Cash and cash equivalents, beginning of period	**12,899**	6,992
Cash and cash equivalents, end of period	**$ 16,426**	$ 8,020

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 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 March 31, 2010 and the results of operations for the three months ended March 31, 2010 and 2009. Results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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, 2009.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2010, 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 March 31, 2010	2009
	(In thousands, except per share data)	
Numerator:		
Net income (loss) available to common stockholders	$ 3,317	$ (362)
Denominator:		
Denominator for basic earnings per share-weighted average shares	4,228	4,161
Effect of dilutive securities:		
Common stock equivalents	1	
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	4,229	4,161
Basic earnings (loss) per share	$ 0.78	$ (0.09)
Diluted earnings (loss) per share	$ 0.78	$ (0.09)

Approximately 3,500 incremental shares were not included in the diluted loss per share calculation for the three months ended March 31, 2009 as the shares were antidilutive since the Company reported a net loss for the quarter.

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation was 390,000 and 450,000 for the three months ended March 31, 2010 and 2009, respectively. 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)

Change in Accounting Estimate

In the second quarter of 2008, the Company reviewed the estimated useful lives of its television analog equipment. This review was performed because of the Federal Communications Commission s (FCC) mandatory requirement that all television stations convert from analog to digital spectrum by February 2009. As a result of this review, the Company s depreciation rate of its analog equipment was increased to reflect the estimated period during which these assets will remain in service. This change of estimated useful lives is deemed as a change in accounting estimate and has been accounted for prospectively, effective April 1, 2008. The effect of this change in estimate was to decrease net income approximately $201,000, and decrease basic and diluted earnings per share by $.05 for the three months ended March 31, 2009. The change in estimate had no effect on depreciation expense in 2010 as the analog equipment was fully depreciated as of December 31, 2009,

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. All revenue is recognized in accordance with the Securities and Exchange Commission s (SEC) Staff Accounting Bulletin (SAB) No. 104, Topic 13, *Revenue Recognition Revised and Updated* and The Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*.

Income Taxes

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

Time Brokerage Agreements

We have entered into Time Brokerage Agreements (TBAs) 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 Operations.

2. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance related to the accounting for variable interest entities which addresses (1) the effects on certain provisions of previous guidance, as a result of the elimination of the qualifying special-purpose entity concept and (2) concerns about the application of certain key provisions of previous guidance, including those in which the accounting and disclosures under the previous guidance do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. This guidance was effective on January 1, 2010 and adoption did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued new guidance for fair value measurements and disclosures which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and describe the reasons for the transfers. The guidance also requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The guidance was effective on January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The guidance adopted on January 1, 2010 did not have a material impact on our consolidated financial statements. Adoption of the remaining guidance is not expected to have a material impact on our consolidated financial statements.

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SAGA COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Other intangibles are amortized over one to eleven years.

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 March 31, 2010:

	Common Stock Issued	
	Class A	**Class B**
	(Shares in thousands)	
Balance, January 1, 2009	4,770	600
Exercised options	2	
Conversion of shares	1	(1)
Forfeiture of restricted stock	(2)	
Balance, December 31, 2009	4,771	599
Conversion of shares	1	(1)
Balance, March 31, 2010	4,772	598

We have a Stock Buy-Back Program (the Buy-Back Program) to allow us to purchase up to $60,000,000 of our Class A Common Stock. From its inception in 1998 through March 31, 2010, we have repurchased 1,387,551 shares of our Class A Common Stock for approximately $45,560,000. The terms of the Credit Agreement, as amended, limit our ability to repurchase our Class A Common Stock.

5. Stock-Based Compensation

2005 Incentive Compensation Plan

On May 9, 2005, our stockholders approved the 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.

Stock-Based Compensation

Compensation expense of approximately $187,000 and $202,000 was recognized for the three months ended March 31, 2010 and 2009, respectively, and is included in corporate general and administrative expenses in our results of operations. The associated future income tax benefit recognized for the three months ended March 31, 2010 and 2009 was approximately $76,000 and $90,000, respectively.

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SAGA COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following summarizes the stock option transactions for the 2005 and 2003 Plans and the 1992 Stock Option Plan (the 1992 Plan) for the three months ended March 31, 2010:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	388,469	$ 54.56	4.2	$
Granted				
Exercised				
Expired				
Forfeited	(320)	37.25		
Outstanding at March 31, 2010	388,149	$ 54.58	4.0	$
Exercisable at March 31, 2010	349,669	$ 56.53	3.7	$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the three months ended March 31, 2010:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2010	80,453	$ 19.74
Granted		
Vested	(41,653)	20.88
Forfeited/canceled	(320)	18.81
Non-vested at March 31, 2010	38,480	$ 18.51

The following summarizes the restricted stock transactions for the three months ended March 31, 2010:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2010	37,368	$ 31.45
Granted		
Vested	(14,097)	35.92
Forfeited	(212)	28.47
Non-vested and outstanding at March 31, 2010	23,059	$ 28.74

For the three months ended March 31, 2010 and 2009, we had approximately $111,000 and $126,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. The associated tax benefit recognized for the three months ended March 31, 2010 and 2009 was approximately $46,000 and $56,000, respectively.

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SAGA COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2010	December 31, 2009
	(In thousands)	
Credit Agreement:		
Reducing revolver facility	$ 115,000	$ 120,000
Secured debt of affiliate	1,078	1,078
	116,078	121,078
Amounts payable within one year	15,200	17,078
	$ 100,878	$ 104,000

Our Credit Agreement is a 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 Company s unused borrowing capacity under the Credit Agreement was zero at March 31, 2010.

On February 11, 2010, we amended our Credit Agreement to (i) reduce the Revolving Commitments to $115 million, (ii) modify the scheduled reductions of the Revolving Commitments, (iii) decrease the minimum Fixed Charge Coverage ratio effective December 31, 2009, (iv) modify the maximum Leverage Ratio effective March 31, 2010, (v) revise the interest rates and commitment fees, and (vi) modify the interest coverage ratio to be maintained. In addition, we agreed to pay each lender a fee. The lender fees plus amendment costs were approximately $1.5 million and were capitalized as deferred financing costs. Additionally, we paid down debt by $5 million in connection with the amendment.

The Revolving Commitments will be permanently reduced by $2.5 million at the end of each calendar quarter beginning on June 30, 2010 and ending on June 30, 2012. In addition, the Revolving Commitments shall be further reduced by 75% of Excess Cash Flow (as defined in the Credit Agreement) each calendar quarter, which we estimate to be $5.2 million for the twelve month period ending March 31, 2011, and is included in the current portion of long-term debt at March 31, 2010. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. Interest on the Credit Agreement is at a variable rate, and as such the debt obligation outstanding approximates fair value.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at March 31, 2010) that, among other things, requires us to maintain specified financial ratios and impose certain limitations on us with respect to additional indebtedness, acquisitions, the incurrence of additional liens, the disposition of assets, the payment of cash dividends, repurchases of our Class A Common Stock, mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement.

Approximately $1.1 million of secured debt of affiliate was refinanced in April 2010 for a term of one year.

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SAGA COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. 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 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.

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended March 31, 2010:				
Net operating revenue	$ 24,144	$ 3,843	$	$ 27,987
Station operating expense	19,223	3,337		22,560
Corporate general and administrative			1,882	1,882
Operating income (loss)	$ 4,921	$ 506	$ (1,882)	$ 3,545
Depreciation and amortization	$ 1,421	$ 424	$ 52	$ 1,897
Total assets	$ 151,117	$ 26,552	$ 25,154	$ 202,823

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended March 31, 2009:				
Net operating revenue	$ 22,697	$ 3,427	$	$ 26,124
Station operating expense	20,317	3,623		23,940
Corporate general and administrative			2,067	2,067
Operating income (loss)	$ 2,380	$ (196)	$ (2,067)	$ 117
Depreciation and amortization	$ 1,531	$ 666	$ 61	$ 2,258
Total assets	$ 172,280	$ 29,587	$ 14,980	$ 216,847

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

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 Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2009. 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 (benefit) are managed on a consolidated basis and are reflected only in our discussion of consolidated results.

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 three markets and consists of five television stations and four LPTV stations. The discussion of our operating performance focuses on segment operating income because we manage our segments primarily on operating income. Operating performance is evaluated for each individual market.

General

We are a broadcast company primarily engaged in developing and operating radio and television stations.

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 for a few weeks only. The majority of our revenue is generated from local advertising, which is sold primarily by each radio markets sales staff. For the three months ended March 31, 2010 and 2009, approximately 88% of our radio segment s gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representative firms that specialize 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. We expect a significant increase in political advertising for 2010 due to the number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Beginning in the last quarter of 2008 and continuing throughout 2009, the global economic recession had significant adverse effects on our revenue. We began to see revenue improvements in the fourth quarter of 2009 and the first quarter of 2010 as compared to the same periods in the prior years, though the level of advertising spending has not returned to pre-recession levels. As the U.S. economic climate continues to improve, we believe our revenues for the second quarter of 2010 will improve as well, however, the pace of the economic recovery is not certain and renewed reductions in advertising spending could adversely affect our operating results.

Our net operating revenue, station operating expense and operating income varies from market to market based upon the 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.

When we acquire and/or begin to operate a station or group of stations we generally increase programming 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. Because reaching a large and demographically attractive audience is crucial to a station s financial success, we endeavor to develop strong listener loyalty. 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 and commissions, depreciation, programming expenses, and advertising and promotion expenses.

Although the slowing global economy has negatively affected advertising revenues for a wide variety of media businesses, radio revenue growth has been declining or stagnant over the last several years, primarily in major markets that are dependent on national advertising. We believe that this decline in major market radio advertising revenue is the result of a lack of pricing discipline by radio operators and new technologies and media (such as the Internet, satellite radio, and MP3 players). These recent technologies and media are gaining advertising share against radio and other traditional media.

We have implemented several initiatives to offset the declines in revenue. We are continuing to expand our interactive initiative to provide a seamless audio experience across numerous platforms to connect with our listeners where and when they want, and have added online components including streaming our stations over the Internet and on-demand options. We are seeing development potential in this area and believe that revenues from our interactive initiatives will continue to increase.

We also continue the rollout of HD Radio . HD Radio utilizes digital technology that provides improved sound quality over standard analog broadcasts and also allows for the delivery of additional channels of diversified programming or data streams in each radio market. It is unclear what impact HD Radio will have on the industry and our revenue as the availability of HD receivers, particularly in automobiles, is not widely available.

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During the three months ended March 31, 2010 and 2009 and the years ended December 31, 2009 and 2008, our Bellingham, Washington; Des Moines, Iowa; Manchester, New Hampshire; and Milwaukee, Wisconsin markets, when combined, represented approximately 30%, 31%, 30% and 32%, respectively, of our consolidated net operating revenue. 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.

The following tables describe the percentage of our consolidated net operating revenue represented by each of these markets:

	Percentage of Consolidated Net Operating Revenue for the Three Months Ended March 31,		Percentage of Consolidated Net Operating Revenue for the Years Ended December 31,	
	2010	2009	2009	2008
Market:				
Bellingham, Washington	5%	6%	5%	5%
Des Moines, Iowa	6%	6%	7%	7%
Manchester, New Hampshire	6%	5%	5%	6%
Milwaukee, Wisconsin	13%	14%	13%	14%

We use 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, impairment of intangible assets, less gain on asset exchange). Station operating income is generally recognized by the broadcasting industry as a measure of performance, is used by analysts who 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 three months ended March 31, 2010 and 2009 and the years ended December 31, 2009 and 2008, the radio stations in our four largest markets when combined, represented approximately 38%, 50%, 41% and 42%, 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 Three Months Ended March 31,		Percentage of Consolidated Station Operating Income(*) for the Years Ended December 31,	
	2010	2009	2009	2008
Market:				
Bellingham, Washington	7%	10%	7%	7%
Des Moines, Iowa	3%	5%	7%	4%
Manchester, New Hampshire	8%	10%	7%	11%

Milwaukee, Wisconsin	20%	25%	20%	20%

* Operating income (excluding non-cash impairment charge) plus corporate general and administrative expenses, depreciation and amortization, impairment of intangible assets, less gain on asset exchange.

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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 the number of advertisements to be broadcast in locally produced programs only, 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.

Our stations strive to maximize revenue by constantly adjusting prices for our commercial spots based upon local market conditions, demand for advertising 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 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 markets sales staff. For the three months ended March 31, 2010 and 2009, approximately 80% and 83%, respectively, of our television segment s gross 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. We expect a significant increase in political advertising for 2010 due to the number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Beginning in the last quarter of 2008 and continuing throughout 2009, the global economic recession had significant adverse effects on our revenue. We began to see revenue improvements in the fourth quarter of 2009 and the first quarter of 2010 as compared to the same periods in the prior years, though the level of advertising spending has not returned to pre-recession levels. As the U.S. economic climate continues to improve, we believe our revenues for the second quarter of 2010 will improve as well, however, the pace of the economic recovery is not certain and renewed reductions in advertising spending could adversely affect our operating results.

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

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Our television market in Joplin, Missouri represented approximately 15%, 14% and 14%, respectively, of our consolidated operating income (excluding non-cash impairment charge) for the three months ended March 31, 2010 and the years ended December 31, 2009 and 2008. As a result of the depressed economy in the first quarter of 2009, our consolidated operating income for the Joplin market is not meaningful for the three months ended March 31, 2009.

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Results of Operations

The following tables summarize our results of operations for the three months ended March 31, 2010 and 2009.

Consolidated Results of Operations

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 27,987	$ 26,124	$ 1,863	7.1%
Station operating expense	22,560	23,940	(1,380)	(5.8)%
Corporate G&A	1,882	2,067	(185)	(9.0)%
Operating income	3,545	117	3,428	N/M
Interest expense	1,519	773	746	96.5%
Other income, net	(3,596)	(4)	(3,592)	N/M
Income tax expense (benefit)	2,305	(290)	2,595	N/M
Net income (loss)	$ 3,317	$ (362)	$ 3,679	N/M
Earnings (loss) per share (basic and diluted)	$ .78	$ (.09)	$ .87	N/M

Radio Broadcasting Segment

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages)			
Net operating revenue	$ 24,144	$ 22,697	$ 1,447	6.4%
Station operating expense	19,223	20,317	(1,094)	(5.4)%
Operating income	$ 4,921	$ 2,380	$ 2,541	106.8%

Television Broadcasting Segment

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages)			

Net operating revenue	$ 3,843	$ 3,427	$ 416	12.1%
Station operating expense	3,337	3,623	(286)	(7.9)%
Operating income (loss)	$ 506	$ (196)	$ 702	N/M

N/M = Not Meaningful

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Reconciliation of segment operating income (loss) to consolidated operating income:

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended March 31, 2010:				
Net operating revenue	$ 24,144	$ 3,843	$	$ 27,987
Station operating expense	19,223	3,337		22,560
Corporate general and administrative			1,882	1,882
Operating income (loss)	$ 4,921	$ 506	$ (1,882)	$ 3,545

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended March 31, 2009:				
Net operating revenue	$ 22,697	$ 3,427	$	$ 26,124
Station operating expense	20,317	3,623		23,940
Corporate general and administrative			2,067	2,067
Operating income (loss)	$ 2,380	$ (196)	$ (2,067)	$ 117

Consolidated

For the three months ended March 31, 2010, consolidated net operating revenue was $27,987,000 compared with $26,124,000 for the three months ended March 31, 2009, an increase of approximately $1,863,000 or 7%. Gross national revenue and gross local revenue increased approximately $640,000 and $1,177,000, respectively. Gross political revenue increased approximately $203,000. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was primarily attributable to political advertising on our networks.

Station operating expense was $22,560,000 for the three months ended March 31, 2010, compared with $23,940,000 for the three months ended March 31, 2009, a decrease of $1,380,000 or 6%. In response to the significant downturn in the economy late in 2008 we made significant expense reductions late in the first quarter of 2009. The effects of these reductions were not realized until the second quarter of 2009. As a result of these reductions the decrease in station operating expense is primarily attributable to a decrease in salaries, severance costs and ratings services of $500,000, $230,000 and $225,000, respectively. Additionally, depreciation expense was approximately $362,000 higher in the first quarter of 2009, primarily as a result of a change in the estimated useful life of television analog equipment, which was fully depreciated in 2009.

Operating income for the three months ended March 31, 2010 was $3,545,000 compared to $117,000 for the three months ended March 31, 2009, an increase of approximately $3,428,000. The increase was a direct result of the improvement in net operating revenue and reduction in station operating expense, described in detail above, and an $185,000 or 9% decrease in corporate general and administrative charges. The decrease in corporate general and administrative charges was attributable to overall expense reductions.

We generated net income of approximately $3,317,000 ($.78 per share on a fully diluted basis) during the three months ended March 31, 2010, compared to a net loss of $362,000 (-$.09 per share on a fully diluted basis) for the three months ended March 31, 2009, an increase of approximately $3,679,000. The increase was the result of an increase in operating income of $3,428,000 and an increase in other income of $3,592,000 offset by increases in interest expense and income tax expense of $746,000 and $2,595,000, respectively. In the current quarter, we had non-recurring income of $3,561,000 resulting from an agreement to downgrade an FCC license at one of our stations. The increase in interest expense was attributable to an average increase in market interest rates of approximately 2.3% and an increase in deferred financing costs incurred in connection with our credit amendments in 2009 and 2010. We expect interest expense to increase in the second quarter as a result of the amendment to our debt agreement on February 11, 2010. The increase in income tax expense was directly attributable to operating performance.

Radio Segment

For the three months ended March 31, 2010, net operating revenue of the radio segment was $24,144,000 compared with $22,697,000 for the three months ended March 31, 2009, which represents an increase of $1,447,000 or 6%. Gross national revenue and gross local revenue increased approximately $401,000 and $978,000, respectively. Gross political revenue increased approximately $177,000 in the current quarter as compared to the prior year period. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was primarily attributable to political advertising on our networks.

Station operating expense for the radio segment was $19,223,000 for the three months ended March 31, 2010, compared with $20,317,000 for the three months ended March 31, 2009, a decline of approximately $1,094,000 or 5%. Salaries and related expenses in the first quarter of 2010 decreased approximately $450,000 from the same quarter of 2009, primarily as a result of salary and work force reductions during 2009 in response to the difficult economic conditions. Severance costs and sales surveys expense decreased approximately $210,000 and $225,000, respectively, in the current year quarter.

Operating income in the radio segment increased $2,541,000 to $4,921,000 for the three months ended March 31, 2010, from $2,380,000 for the three months ended March 31, 2009. The increase was a direct result of the improvement in net operating revenue and reduction in station operating expense, described in detail above.

Television Segment

For the three months ended March 31, 2010, net operating revenue of our television segment was $3,843,000 compared with $3,427,000 for the three months ended March 31, 2009, an increase of $416,000 or 12%. Gross national revenue and gross local revenue increased approximately $239,000 and $199,000, respectively. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general.

Station operating expense in the television segment for the three months ended March 31, 2010 was $3,337,000, compared with $3,623,000 for the three months ended March 31, 2009, a decrease of approximately $286,000 or 8%. Depreciation expense was approximately $242,000 higher in the first quarter of 2009, primarily as a result of a change in the estimated useful life of television analog equipment. Salaries and related expenses in the first quarter of 2010 decreased approximately $50,000 from the same quarter of 2009 as a result of salary and work force reductions during 2009.

Operating income in the television segment for the three months ended March 31, 2010 was $506,000 compared to an operating loss of $196,000 for the three months ended March 31, 2009, an increase of approximately $702,000. The increase was a direct result of the improvement in net operating revenue and reduction in station operating expense, described in detail above.

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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-looki 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 2010 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 Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

Liquidity and Capital Resources

Debt Arrangements and Debt Service Requirements

As of March 31, 2010, the Company had $116,078,000 of long-term debt outstanding (including the current portion thereof) and the Company s unused borrowing capacity under its Credit Agreement was zero.

The Credit Agreement, as amended and discussed below, is a 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 and capital expenditures.

On February 11, 2010, we amended our Credit Agreement to (i) reduce the Revolving Commitments to $115,000,000, (ii) modify the scheduled reductions of the Revolving Commitments, (iii) decrease the minimum Fixed Charge Coverage ratio effective December 31, 2009, (iv) modify the maximum Leverage Ratio effective March 31, 2010, (v) revise the interest rates and commitment fees, and (vi) modify the interest coverage ratio to be maintained. In addition, we agreed to pay each lender a fee. The lender fees plus amendment costs were approximately $1.5 million and were capitalized as deferred financing costs.

On February 11, 2010, in conjunction with the amendment, we made a $5,000,000 payment on the outstanding balance of our Credit Agreement.

The Revolving Commitments will be permanently reduced by $2,500,000 at the end of each calendar quarter beginning on June 30, 2010 and ending on June 30, 2012. In addition, the Revolving Commitments shall be further reduced by 75% of Excess Cash Flow (as defined in the Credit Agreement) each calendar quarter. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at March 31, 2010) that, among other things, requires us to maintain specified financial ratios and impose certain limitations on us with respect to additional indebtedness, acquisitions, the incurrence of additional liens, the disposition of assets, the payment of cash dividends, repurchases of our Class A Common Stock, mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement.

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Sources and Uses of Cash

During the three months ended March 31, 2010 and 2009, we had net cash flows from operating activities of $7,342,000 and $5,053,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest and scheduled payments of principal 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.

Our capital expenditures, exclusive of acquisitions, for the three months ended March 31, 2010 were approximately $845,000 ($1,065,000 in 2009). We anticipate capital expenditures in 2010 to be approximately $4,500,000 to $5,000,000, which we expect to finance through funds generated from operations.

Summary Disclosures About Contractual Obligations and Commercial Commitments

We have future cash obligations under various types of contracts, including 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 Operation Summary Disclosures About Contractual Obligations and Commercial Commitments in our Annual Report on Form 10-K for the year ended December 31, 2009.

We anticipate that our contractual cash obligations will be financed through funds generated from operations.

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 in our Annual Report on Form 10-K for the year ended December 31, 2009.

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 7A. Quantitative and Qualitative Disclosures about Market Risk and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk and Risk Management Policies in our Annual Report on Form 10-K for the year ended December 31, 2009 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2009 Annual Report on Form 10-K.

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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 March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We currently and from time to time are involved in litigation incidental to the conduct of our business. We are not a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on our financial position, cash flows or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our repurchases of our Class A Common Stock during the three months ended March 31, 2010. All shares repurchased during the quarter were from the retention of shares for the payment of withholding taxes related to the vesting of restricted stock.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program(a)
January 1 January 31, 2010		$		$ 14,518,317
February 1 February 28, 2010		$		$ 14,518,317
March 1 March 31, 2010	5,466	$ 14.25	5,466	$ 14,440,427
Total	5,466	$ 14.25	5,466	$ 14,440,427

(a) On August 7, 1998 our Board of Directors approved a Stock Buy-Back Program of up to $2,000,000 of our Class A Common Stock.

Since August 1998, the Board of Directors has authorized several increases to the Stock Buy-Back Program, the most recent occurring in January 2008, which increased the total amount authorized for repurchase of our Class A Common Stock to $60,000,000. The terms of the Credit Agreement, as amended, limit our ability to repurchase our Class A Common Stock.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-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 Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act1934, 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.

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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: May 14, 2010	/s/ SAMUEL D. BUSH Samuel D. Bush *Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)*
Date: May 14, 2010	/s/ CATHERINE A. BOBINSKI Catherine A. Bobinski *Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)*