SAGA COMMUNICATIONS INC
Form 11-K
March 31, 2009

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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 11-K

(Mark One)

þ **Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2008

or

o **Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission file number 001-11588

Saga Communications, Inc. Employee Stock Purchase Plan

(Full title of plan)

Saga Communications, Inc.
73 Kercheval Avenue
Grosse Pointe Farms, Michigan 48236

(Name of Issuer of Securities Held Pursuant to Plan and Address of its Principal Executive Office)

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Saga Communications, Inc.
Employee Stock Purchase Plan
Financial Statements as of
December 31, 2008 and 2007
and for the three years in the period ended December 31, 2008
with Report of Independent Registered Public Accounting Firm

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Saga Communications, Inc.
Employee Stock Purchase Plan
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as of December 31, 2008 and 2007
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator
Saga Communications, Inc.
Employee Stock Purchase Plan

We have audited the accompanying statements of financial condition of Saga Communications, Inc. Employee Stock Purchase Plan as of December 31, 2008 and 2007, and the related statements of changes in plan equity for the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of the Plan at December 31, 2008 and 2007, and the changes in plan equity for the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/S/ Ernst & Young LLP

Detroit, Michigan
March 30, 2009

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Saga Communications, Inc. Employee Stock Purchase Plan
Statements of Financial Condition

	December 31, 2008	December 31, 2007
Assets		
Common stock of Saga Communications, Inc. at fair value (35,487 shares at a cost of $1,672,221 at December 31, 2008 and 32,510 shares at a cost of $1,880,129 at December 31, 2007)	**$ 234,216**	$ 765,949
Plan Equity		
Plan equity (135 participants at December 31, 2008 and 178 participants at December 31, 2007)	**$ 234,216**	$ 765,949

See accompanying notes.

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Saga Communications, Inc. Employee Stock Purchase Plan
Statements of Changes in Plan Equity

	For the years ended December 31, 2008	2007	2006
Additions:			
Participant contributions	**$ 103,977**	$ 137,655	$ 179,441
Employer contributions	**18,349**	24,298	31,697
	122,326	161,953	211,138
Deductions:			
Plan distributions	**(96,726)**	(66,738)	(27,595)
	25,600	95,215	183,543
Realized loss on sale of investments	**(73,630)**	(32,889)	(7,831)
Net unrealized depreciation in fair value of investments	**(483,703)**	(434,994)	(105,551)
Net (decrease) increase	**(531,733)**	(372,668)	70,161
Plan equity-beginning of period	**765,949**	1,138,617	1,068,456
Plan equity-end of period	**$ 234,216**	$ 765,949	$ 1,138,617

See accompanying notes.

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Saga Communications, Inc.
Employee Stock Purchase Plan
Notes to Financial Statements
December 31, 2008

1. Description of the Plan

In 1999, the stockholders of Saga Communications, Inc. (Company) approved the Saga Communications, Inc. Employee Stock Purchase Plan (Plan) under which 390,625 shares of the Company s Class A Common Stock could be sold to the Company s employees. The Plan was effective July 1, 1999, and employees were eligible to begin contributing on October 1, 1999. The Company s Board of Directors allowed the Plan to expire on December 31, 2008, pursuant to the terms of the Plan, and all assets of the Plan are expected to be distributed as soon as practicable.

Employees were eligible to participate in the Plan if they were employed by the Company or any of its subsidiaries and 1) customarily worked a minimum of 20 hours per week and 2) had completed six consecutive months of service.

Each calendar year quarter, an offering was made to eligible employees to purchase Class A Common Stock of the Company under the provisions of the Plan. An eligible employee could have elected to withhold 1 to 10 percent of their compensation (up to a limit of $5,000 per year) to purchase shares of the Company s stock at a price equal to 85 percent of the fair value of the stock as of the last day of such quarter. The Company contributed the difference between the cost of shares acquired and the participant purchase price.

Participants were not permitted under the Plan to dispose of any shares purchased under the Plan within two years after the later of (i) the beginning of the quarter in which a deduction was taken from the participant s compensation for the purchase of the shares, or (ii) the expiration of one year from the date the shares were transferred to the participant.

Participants were immediately 100% vested in the Plan.

Shares were purchased on the last day of each quarter. There were 7,455, 4,817 and 5,835 shares issued under the Plan during 2008, 2007 and 2006, respectively. There were 4,478, 1,927 and 788 shares disposed of during 2008, 2007 and 2006, respectively.

2. Significant Accounting Policies

Basis of Presentation

On January 27, 2009 the Company declared a one-for-four reverse stock split of its Class A and Class B Common Stock, effective January 28, 2009. All share and per share information in the accompanying financial statements has been restated retroactively to reflect the reverse stock split.

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Saga Communications, Inc.
Employee Stock Purchase Plan
Notes to Financial Statements (Continued)

Administrative Expenses

The costs of administering the Plan are borne by the Company unless and until a participant receives written notice of the impositions of administrative costs, with such costs to begin effective with the next quarterly offering as described in Note 1. Currently, the Company pays all administrative fees and costs associated with the Plan. Brokerage fees or commissions when Class A Common Stock is sold are paid by the participants.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Investment

The fair value of common stock held in the Plan is based on the quoted closing market price of the Company s Class A Common Stock on the last business day of the plan year.

3. Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 157, Fair Value Measurements (SFAS 157), which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. Specifically, SFAS 157:

- defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;
- eliminates large position discounts for financial instruments quoted in active markets; and
- expands disclosures about instruments measured at fair value.

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SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in SFAS 157:

a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b. *Cost approach:* Amount that would be required to replace the service capacity of an asset (replacement cost).

c. *Income approach:* Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

Saga Communications, Inc. common stock is valued at the closing price reported on the New York Stock Exchange and is classified within level 1 of the valuation hierarchy.

December 31, 2008	**Level 1**	**Level 2**	**Level 3**	**Total Assets Available**
Saga Communications, Inc. common stock	$234,216			$234,216

4. Income Tax Status

The Plan qualifies as an employee stock purchase plan under Section 423 of the Internal Revenue Code (the Code) which allows employees to purchase stock at a discount without immediate taxation on the amount of the discount. The plan is not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

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EXHIBIT INDEX

Exhibit	
23.1	Consent of Ernst & Young LLP

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SIGNATURES

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

SAGA COMMUNICATIONS, INC.
EMPLOYEE STOCK PURCHASE PLAN

Date: March 31, 2009

/s/ Marcia K. Lobaito
Marcia K. Lobaito
Plan Administrator

Date: March 31, 2009

/s/ Catherine A. Bobinski
Catherine A. Bobinski
Vice President, Controller