SAGA COMMUNICATIONS INC
Form 10-Q
November 09, 2009

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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 September 30, 2009

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 website, 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 November 2, 2009 was 3,664,848 and 599,614, respectively.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2009 (Unaudited)	December 31, 2008 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 16,649	$ 6,992
Accounts receivable, net	19,146	20,091
Prepaid expenses and other current assets	2,050	5,072
Barter transactions	1,995	1,532
Deferred income taxes	1,061	1,114
Total current assets	40,901	34,801
Property and equipment	158,005	157,829
Less accumulated depreciation	87,801	84,446
Net property and equipment	70,204	73,383
Other assets:		
Broadcast licenses, net	107,673	107,673
Other intangibles, deferred costs and investments, net	5,962	5,603
Total other assets	113,635	113,276
	$ 224,740	$ 221,460
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,186	$ 1,447
Payroll and payroll taxes	6,232	7,326
Other accrued expenses	3,427	3,804
Barter transactions	2,050	1,786
Current portion of long-term debt	20,578	1,061
Total current liabilities	33,473	15,424
Deferred income taxes	6,860	3,294
Long-term debt	110,000	134,350
Other liabilities	3,300	3,295
Stockholders equity		
Common stock	53	53
Additional paid-in capital	49,022	51,951
Retained earnings	50,427	45,645
Treasury stock	(28,395)	(32,552)

Total stockholders equity	71,107	65,097
	$ 224,740	$ 221,460

Note: The balance sheet at December 31, 2008 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 INCOME

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Unaudited) (In thousands, except per share data)			
Net operating revenue	**$ 31,253**	$ 36,192	**$ 89,014**	$ 105,066
Station operating expense	**23,556**	26,588	**70,791**	79,255
Corporate general and administrative	**1,906**	2,485	**6,131**	7,611
Gain on asset exchange		(282)		(506)
Operating income	**5,791**	7,401	**12,092**	18,706
Other expenses, net:				
Interest expense	**1,386**	1,889	**3,589**	5,760
Other expense, net	**43**		**11**	27
Income before income tax	**4,362**	5,512	**8,492**	12,919
Income tax provision	**1,892**	2,415	**3,710**	5,452
Net income	**$ 2,470**	$ 3,097	**$ 4,782**	$ 7,467
Earnings per share				
Basic	**$ .58**	$ .65	**$ 1.14**	$ 1.52
Diluted	**$ .58**	$ .65	**$ 1.14**	$ 1.52
Weighted average common shares	**4,227**	4,735	**4,202**	4,898
Weighted average common and common equivalent shares	**4,227**	4,738	**4,203**	4,902

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2009	2008
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	$ 18,649	$ 18,185
Cash flows from investing activities:		
Acquisition of property and equipment	(3,237)	(5,134)
Acquisition of stations		(10,944)
Other investing activities	89	(101)
Net cash used in investing activities	(3,148)	(16,179)
Cash flows from financing activities:		
Payments on long-term debt	(4,850)	(1,000)
Payments for debt modification	(967)	
Purchase of shares held in treasury	(20)	(11,810)
Proceeds from long-term debt	17	5,500
Other financing activities	(24)	(42)
Net cash used in financing activities	(5,844)	(7,352)
Net increase (decrease) in cash and cash equivalents	9,657	(5,346)
Cash and cash equivalents, beginning of period	6,992	13,343
Cash and cash equivalents, end of period	$ 16,649	$ 7,997

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 September 30, 2009 and the results of operations for the three and nine months ended September 30, 2009 and 2008. Results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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, 2008.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2009, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements. The evaluation was conducted through November 9, 2009, the date these financial statements were issued.

Earnings Per Share Information and Reverse Stock Split

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. The reverse stock split reduced the Company s issued and outstanding shares of common stock from approximately 14,425,104 shares of Class A Common Stock and 2,402,338 shares of Class B Common Stock to approximately 3,606,932 and 600,585 shares, respectively.

All 2008 share and per share information in the accompanying financial statements has been restated retroactively to reflect the reverse stock split. The common stock and additional paid-in capital accounts at December 31, 2008 reflect the retroactive capitalization of the 2009 reverse stock split.

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation was 388,000 for the three and nine months ended September 30, 2009 and 481,000 for the three and nine months ended September 30, 2008. 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.

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 June 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 and earnings per share (basic and diluted) by approximately $277,000 and $.07, respectively, for the nine months ended September 30, 2009. The change in estimate had no effect on the three months ended September 30, 2009. For the three and nine months ended September 30, 2008, net income decreased approximately $122,000 and $237,000, respectively, and earnings per share (basic and diluted) decreased by $.03 and $.05, respectively, as a result of this change in estimate.

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

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.*

Income Taxes

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

Time Brokerage Agreements

Historically, 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 Income.

Nonmonetary Asset Exchanges

In 2006, the FCC granted to Sprint Nextel Corporation (Nextel) the right to reclaim from broadcasters in each market across the country the 1.9 GHz spectrum to use for an emergency communications system. In order to reclaim this signal, Nextel must replace all analog equipment currently using this spectrum with digital equipment. All broadcasters have agreed to use the digital substitute that Nextel will provide. The exchange of equipment will be completed on a market by market basis. As the equipment is exchanged and put into service in each of our markets we have and expect to continue to record gains to the extent that the fair market value of the equipment we receive exceeds the book value of the analog equipment we exchange. See Note 8, Gain on Asset Exchange.

2. Recent Accounting Pronouncements

In the third quarter of 2009, the Company adopted the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). The ASC is the single official source of authoritative, nongovernmental GAAP, other than guidance issued by the SEC. The adoption of the ASC did not have any impact on our financial statements.

On January 1, 2009, we adopted authoritative guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. The adoption of this guidance did not have a material impact on our financial statements.

On January 1, 2009, we adopted authoritative guidance on fair value measurement for nonfinancial assets and liabilities. Adoption of the new guidance did not have a material impact on our financial statements.

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for the Company beginning January 1, 2010. The new guidance required revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures of variable interests. We do not expect the adoption of this guidance to have a material impact on our financial statements.

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

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets, which is effective for the Company in the first quarter of 2010. The guidance requires additional disclosures for transfers of financial assets and changes the requirements for derecognizing financial assets. We do not expect the adoption of this guidance to have a material impact on our financial statements.

3. Intangible Assets

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

We operate our broadcast licenses in each market as a single asset and determine the fair value by relying on a discounted cash flow approach. The fair value contains assumptions incorporating variables that are based on past experiences and judgments about future operating performance using industry normalized information for an average station within a market. These variables include, but are not limited to: (1) the forecast growth rate of each radio market, including population, household income, retail sales and other expenditures that would influence advertising expenditures; (2) market share and profit margin of an average station within a market; (3) estimated capital start-up costs and losses incurred during the early years; (4) risk-adjusted discount rate; (5) the likely media competition within the market area; and (6) terminal values.

If actual market conditions are less favorable than those estimated by the Company or if economic conditions continue to deteriorate, the fair value of the Company s broadcast licenses could decline and the Company may be required to recognize impairment charges in future periods. Such a charge could have a material effect on the consolidated financial statements.

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 September 30, 2009:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2008	4,744	598
Exercised options	5	
Conversion of shares	1	(1)
Issuance of restricted stock	23	3
Forfeiture of restricted stock	(3)	
Balance, December 31, 2008	4,770	600
Exercised options	2	
Conversion of shares	1	(1)
Forfeiture of restricted stock	(2)	
Balance, September 30, 2009	4,771	599

We have a Stock 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 September 30, 2009, we have repurchased 1,382,085 shares of our Class A

Common Stock for approximately $45,482,000. The terms of the Credit Agreement, as amended on March 9, 2009, restrict our ability to repurchase our Class A Common Stock.

In March 2009, we used 62,243 shares of treasury stock to fund the 2008 employer contribution under our 401(k) Plan.

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

5. Acquisitions

The unaudited 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 the consideration paid over the estimated fair value of net assets acquired have been recorded as goodwill, which is deductible for tax purposes.

In 2009, we began broadcasting with ten analog translators, carrying either a primary or an HD program stream, in seven of our radio markets. These translators are not material to the results of the Company.

2008 Acquisitions

On September 5, 2008, in connection with a city of license change for WJZK(FM), we exchanged $242,000 in cash and a tower, antenna, and transmitter with a fair market value (which approximates cost) of approximately $1,591,000, with another radio station for a broadcast license.

On January 21, 2004, we entered into agreements to acquire an FM radio station (WOXL-FM) serving the Asheville, North Carolina market. On November 1, 2002 we began providing programming under a Sub-Time Brokerage Agreement to WOXL-FM, and on January 31, 2008 we closed on the acquisition for approximately $9,463,000 of which approximately $9,354,000 was paid in 2008 and $109,000 was paid in prior years. Since WOXL was operated under a TBA and we recognized the related interest expense, there is no pro forma effect of this acquisition.

On January 31, 2008, we paid $1,350,000 in connection with the 2006 acquisition of one FM radio station (WTMT-FM) serving the Asheville, North Carolina market.

6. 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 select number of employees.

Stock-Based Compensation

Stock-based compensation expense of approximately $220,000 and $638,000, respectively, and related tax benefits of $97,000 and $281,000, respectively, were recognized for the three and nine months ended September 30, 2009. For the three and nine months ended September 30, 2008, the Company recognized stock-based compensation expense of approximately $202,000 and $698,000, respectively, and related tax benefits of $85,000 and $294,000, respectively. Compensation expense is reported in corporate general and administrative expenses in our results of operations.

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 nine months ended September 30, 2009:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	450,059	$ 54.11	4.7	$
Granted				
Exercised				
Expired	(57,997)	51.90		
Forfeited	(3,593)	40.50		
Outstanding at September 30, 2009	388,469	$ 54.56	4.5	$
Exercisable at September 30, 2009	308,016	$ 58.48	3.9	$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2009:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2009	126,325	$ 20.13
Granted		
Vested	(42,279)	20.87
Forfeited/canceled	(3,593)	20.14
Non-vested at September 30, 2009	80,453	$ 19.74

The following summarizes the restricted stock transactions for the nine months ended September 30, 2009:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2009	53,649	$ 32.60
Granted		
Vested	(14,356)	35.82
Forfeited	(1,925)	30.84
Non-vested and outstanding at September 30, 2009	37,368	$ 31.45

For the three and nine months ended September 30, 2009 and the three and nine months ended September 30, 2008, we had approximately $128,000, $380,000, $136,000 and $361,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements.

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 were eligible to receive options. Options granted under the Directors Plan were non-qualified stock options, were 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 receives cash for his or her services as a director.

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

The following summarizes the stock option transactions for the Directors Plan for the nine months ended September 30, 2009:

	Number of Options	Weighted Average Price per Share	Aggregate Intrinsic Value
Outstanding at January 1, 2009	1,036	$ 0.035	$ 6,802
Granted			
Exercised	(1,036)	0.035	
Outstanding and exercisable at September 30, 2009		$	$

7. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2009	December 31, 2008
	(In thousands)	
Credit Agreement:		
Reducing revolver facility	$ 129,500	$ 134,350
Secured debt of affiliate	1,078	1,061
	130,578	135,411
Amounts payable within one year	20,578	1,061
	$ 110,000	$ 134,350

Our Credit Agreement is a $148,750,000 reducing revolving line of credit maturing on July 29, 2012. On December 31, 2009, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced by $8,750,000 and will continue to be permanently reduced at the end of each calendar quarter thereafter in amounts ranging from 5.0% to 12.5% of the original total Revolving Commitment of $200,000,000. 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. 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.

At September 30, 2009, due to the scheduled reductions, we are required to make a $9,500,000 payment on June 30, 2010 (of which $5,000,000 was paid in October 2009), and a $10,000,000 payment on both September 30, 2010 and December 31, 2010. We are actively seeking new debt financing, and expect to have either an amendment to the Credit Agreement or a new loan in place no later than March 2010. However, there are no assurances that new financing will be available on acceptable terms, if at all, and if necessary we anticipate making the required payments from cash on hand and funds generated from operations.

On March 9, 2009, we amended our Credit Agreement to (i) exclude certain items from the definition of Fixed Charges effective December 31, 2008, (ii) increase the minimum Fixed Charge Coverage ratio effective December 31, 2008, (iii) increase the maximum Leverage Ratio effective December 31, 2008, (iv) reduce the Revolving

Commitments to $150,000,000, (v) revise the interest rates and commitment fees and (vi) impose certain other limitations on the Company with respect to restricted payments, acquisitions and stock purchases. In addition, we agreed to pay each lender a fee. The lender fee plus amendment costs were approximately $1 million, which were capitalized as deferred financing costs and will be amortized over the remaining life of the Credit Agreement.

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 $19,250,000 of unused borrowing capacity under the Credit Agreement at September 30, 2009.

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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, 2009) 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; (vi) repurchases of our Class A Common Stock; and (vii) 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 $1,061,000 of secured debt of affiliate was refinanced in April 2009 for a term of one year. At September 30, 2009, there was $1,078,000 of secured debt of affiliate outstanding.

8. Gain on Asset Exchange

In 2006, the FCC granted to Nextel the right to reclaim from broadcasters in each market across the country the 1.9 GHz spectrum to use for an emergency communications system. In order to reclaim this signal, Nextel must replace all analog equipment currently using this spectrum with digital equipment. We have agreed to accept the substitute equipment that Nextel will provide and in turn we must relinquish our existing equipment to Nextel. This arrangement is accounted for as an exchange of assets.

The equipment we receive under this arrangement is recorded at its estimated fair market value and depreciated over estimated useful lives ranging from 5 to 15 years. Fair market value is derived from quoted prices obtained from manufacturers and vendors for the specific equipment acquired. As the equipment is exchanged and put into service in each of our markets we have and expect to continue to record gains to the extent that the fair market value of the equipment we receive exceeds the book value of the analog equipment we exchange. For the three and nine months ended September 30, 2008, we recognized gains of approximately $282,000 and $506,000, respectively, from the exchange of this equipment. There were no asset exchanges in the nine months ended September 30, 2009.

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

9. 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, ten analog translators 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 September 30, 2009:				
Net operating revenue	$ 26,992	$ 4,261	$	$ 31,253
Station operating expense	20,046	3,510		23,556
Corporate general and administrative			1,906	1,906
Operating income (loss)	$ 6,946	$ 751	$ (1,906)	$ 5,791
Depreciation and amortization	$ 1,521	$ 453	$ 57	$ 2,031

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended September 30, 2008:				
Net operating revenue	$ 31,306	$ 4,886	$	$ 36,192
Station operating expense	22,717	3,871		26,588
Corporate general and administrative			2,485	2,485
Gain on asset exchange		(282)		(282)
Operating income (loss)	$ 8,589	$ 1,297	$ (2,485)	$ 7,401
Depreciation and amortization	$ 1,618	$ 620	$ 54	$ 2,292

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Nine Months Ended September 30, 2009:				
Net operating revenue	$ 77,219	$ 11,795	$	$ 89,014
Station operating expense	60,057	10,734		70,791
Corporate general and administrative			6,131	6,131

Operating income (loss)	$ 17,162	$ 1,061	$ (6,131)	$ 12,092
Depreciation and amortization	$ 4,568	$ 1,783	$ 166	$ 6,517
Total assets	$ 172,244	$ 28,968	$ 23,528	$ 224,740

	Radio	**Television**	**Corporate and Other**	**Consolidated**
		(In thousands)		
Nine Months Ended September 30, 2008:				
Net operating revenue	$ 91,316	$ 13,750	$	$ 105,066
Station operating expense	68,028	11,227		79,255
Corporate general and administrative			7,611	7,611
Gain on asset exchange		(506)		(506)
Operating income (loss)	$ 23,288	$ 3,029	$ (7,611)	$ 18,706
Depreciation and amortization	$ 4,771	$ 1,620	$ 160	$ 6,551
Total assets	$ 295,422	$ 32,447	$ 11,946	$ 339,815

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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, 2008. 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 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, ten analog translators 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 nine months ended September 30, 2009 and 2008, approximately 87% and 86%, respectively, 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. The downturn in the U.S. economy has had a significant adverse effect on our revenue in 2009. The recent economic conditions have negatively affected the demand for advertising and will present a challenge to the revenue and profit growth of our Company for as long as the current economic conditions persist.

In 2008 we had a considerable increase in revenue due to political advertising. Since 2009 is not a significant election year, political revenue has significantly declined in 2009.

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.

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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 (including 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 begun 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.

In response to the declining trend in revenue caused by the global economic slowdown, we have continued to evaluate and reduce operating expenses. We have made reductions in our workforce, implemented a companywide 5% salary decrease, renegotiated and/or eliminated certain contracts, and are continuing to evaluate every area of our operations for additional savings in expenses.

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During the nine months ended September 30, 2009 and 2008 and the years ended December 31, 2008 and 2007, our Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 29%, 32%, 30% and 32%, respectively, of our consolidated net operating revenue.

A significant decline in the total available radio advertising dollars in our major markets has resulted in a significant decline in our net operating revenue for the nine months ended September 30, 2009 as compared to the corresponding period of 2008. This decrease in net operating revenue has directly affected the operating income of our radio stations in these markets. We do not expect any significant improvements in revenue until there are considerable improvements in the U.S. economy.

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 Nine Months Ended September 30,		Percentage of Consolidated Net Operating Revenue for the Years Ended December 31,	
	2009	2008	2008	2007
Market:				
Columbus, Ohio	7%	6%	6%	7%
Manchester, New Hampshire	5%	7%	6%	6%
Milwaukee, Wisconsin	13%	15%	14%	14%
Norfolk, Virginia	4%	4%	4%	5%

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). 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 nine months ended September 30, 2009 and 2008 and the years ended December 31, 2008 and 2007, the radio stations in our four largest markets when combined, represented approximately 35%, 38%, 37% and 40%, 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 September 30,		Percentage of Consolidated Station Operating Income(*) for the Years Ended December 31,	
	2009	2008	2008	2007

Market:				
Columbus, Ohio	5%	4%	4%	6%
Manchester, New Hampshire	8%	11%	11%	10%
Milwaukee, Wisconsin	21%	21%	20%	20%
Norfolk, Virginia	1%	2%	2%	4%

* Operating income (excluding non-cash impairment charge) plus corporate general and administrative expenses, depreciation and amortization.

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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.

For the period commencing on January 1, 2009, we have engaged in negotiations with cable and satellite providers as to the terms of their carriage of our television stations and the compensation we will receive for granting such carriage rights. We entered into retransmission consent agreements with certain of these providers and have recognized approximately $361,000 in revenue for the nine months ended September 30, 2009.

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 nine months ended September 30, 2009 and 2008, approximately 83% and 81%, 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. The downturn in the U.S. economy has had a significant adverse effect on our revenue in 2009. The recent economic conditions negatively affect the demand for advertising and present a challenge to the revenue and profit growth of our Company for as long as the current economic conditions persist.

In 2008 we had a considerable increase in revenue due to political advertising. Since 2009 is not a significant election year, political revenue has significantly declined in 2009.

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, and advertising and promotion expenses.

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Our television market in Joplin, Missouri represented approximately 11%, 13%, 14% and 9%, respectively, of our consolidated operating income (excluding non-cash impairment charge) for the nine months ended September 30, 2009 and 2008 and the years ended December 31, 2008 and 2007.

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Results of Operations

The following tables summarize our results of operations for the three months ended September 30, 2009 and 2008.

Consolidated Results of Operations

	Three Months Ended September 30,		$ Increase	% Increase
	2009	2008	(Decrease)	(Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 31,253	$ 36,192	$ (4,939)	(13.6)%
Station operating expense	23,556	26,588	(3,032)	(11.4)%
Corporate G&A	1,906	2,485	(579)	(23.3)%
Gain on asset exchange		(282)	282	N/M
Operating income	5,791	7,401	(1,610)	(21.8)%
Interest expense	1,386	1,889	(503)	(26.6)%
Other (income) expense, net	43		43	N/M
Income taxes	1,892	2,415	(523)	(21.7)%
Net income	$ 2,470	$ 3,097	$ (627)	(20.2)%
Earnings per share (basic and diluted)	$ .58	$ .65	$ (.07)	(10.8)%

Radio Broadcasting Segment

	Three Months Ended September 30,		$ Increase	% Increase
	2009	2008	(Decrease)	(Decrease)
	(In thousands, except percentages)			
Net operating revenue	$ 26,992	$ 31,306	$ (4,314)	(13.8)%
Station operating expense	20,046	22,717	(2,671)	(11.8)%
Operating income	$ 6,946	$ 8,589	$ (1,643)	(19.1)%

Television Broadcasting Segment

	Three Months Ended September 30,		$ Increase	% Increase
	2009	2008	(Decrease)	(Decrease)
	(In thousands, except percentages)			

Net operating revenue	$ 4,261	$ 4,886	$ (625)	(12.8)%
Station operating expense	3,510	3,871	(361)	(9.3)%
Gain on asset exchange		(282)	282	N/M
Operating income	$ 751	$ 1,297	$ (546)	(42.1)%

N/M = Not Meaningful

Reconciliation of segment operating income to consolidated operating income:

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended September 30, 2009:				
Net operating revenue	$ 26,992	$ 4,261	$	$ 31,253
Station operating expense	20,046	3,510		23,556
Corporate general and administrative			1,906	1,906
Operating income (loss)	$ 6,946	$ 751	$ (1,906)	$ 5,791

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended September 30, 2008:				
Net operating revenue	$ 31,306	$ 4,886	$	$ 36,192
Station operating expense	22,717	3,871		26,588
Corporate general and administrative			2,485	2,485
Gain on asset exchange		(282)		(282)
Operating income (loss)	$ 8,589	$ 1,297	$ (2,485)	$ 7,401

Consolidated

For the three months ended September 30, 2009, consolidated net operating revenue was $31,253,000 compared with $36,192,000 for the three months ended September 30, 2008, a decline of approximately $4,939,000 or 14%. We had a decrease of approximately $5,327,000 in net operating revenue generated by stations that we own or operate for the comparable period in 2008 (same station), and an increase in net operating revenue of approximately $388,000 attributable to stations we did not own and operate for the entire comparable period. Same station gross national revenue and same station gross local revenue decreased approximately $737,000 and $3,784,000, respectively. Same station gross political revenue decreased approximately $1,654,000. The decrease in both gross national and gross local revenue was primarily the result of revenue downturns in most of our markets. There were considerable revenue declines in our Charlottesville, VA (30%), Columbus, OH (27%), Manchester, NH (35%), Milwaukee, WI (22%), and Norfolk, VA (21%) markets. Our revenue has been directly affected by the current adverse economic conditions. There has been an overall decline in advertising revenue as a result of the slowdown in the economy and advertising spending in general. We expect this trend to continue in the fourth quarter. The decrease in gross political revenue was directly attributable to advertising in the prior year for the 2008 presidential, congressional, senatorial and local races.

Station operating expense was $23,556,000 for the three months ended September 30, 2009, compared with $26,588,000 for the three months ended September 30, 2008, a decrease of $3,032,000 or 11%. Same station operating expense decreased $3,185,000 from the prior year quarter. The decrease in same station operating expense primarily resulted from cost reduction initiatives implemented in the first quarter, and reduced commission expense as a result of the decline in net operating revenue. Station operating expense increased approximately $153,000 from stations that we did not own or operate for the comparable period in 2008.

Operating income for the three months ended September 30, 2009 was $5,791,000 compared to $7,401,000 for the three months ended September 30, 2008, a decrease of approximately $1,610,000. The decrease was the result of the significant declines in net operating revenue and station operating expense, described in detail above. Additionally,

operating income in the prior year quarter included a $282,000 gain recognized from the exchange of equipment under an arrangement the Company has with Sprint Nextel Corporation. Current year operating income was positively affected by a $579,000 or 23% decrease in corporate general and administrative charges. The decrease in corporate general and administrative charges was primarily attributable to reductions in compensation and compensation related costs of approximately $400,000 and overall expense reductions, including a decline in audit fees, interactive fees and travel expenses.

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We generated net income of approximately $2,470,000 ($.58 per share on a fully diluted basis) during the three months ended September 30, 2009, compared with $3,097,000 ($.65 per share on a fully diluted basis) for the three months ended September 30, 2008, a decrease of approximately $627,000. The decrease was primarily the result of a decline in operating income of $1,610,000, offset by decreases in interest expense and income tax expense of $503,000 and $523,000, respectively. The decrease in interest expense was attributable to a reduction in average market interest rates of approximately 1.7% as compared to the prior year quarter, partially offset by an increase in the amortization of debt issuance costs. The decrease in income tax expense was directly attributable to operating performance.

Radio Segment

For the three months ended September 30, 2009, net operating revenue of the radio segment was $26,992,000 compared with $31,306,000 for the three months ended September 30, 2008, which represents a decrease of $4,314,000 or 14%. During the current quarter we had an increase in net operating revenue of approximately $388,000 that was attributable to stations we did not own and operate for the entire comparable period. We had a decrease of approximately $4,702,000 in net operating revenue generated by radio stations that we owned or operated for the comparable period in 2008 (same station). Same station gross national revenue and same station gross local revenue decreased approximately $602,000 and $3,825,000, respectively. Same station gross political revenue decreased approximately $987,000. The decrease in both gross national and gross local revenue was primarily the result of revenue downturns in most of our radio markets. There were considerable revenue declines in our Charlottesville, VA (30%), Columbus, OH (27%), Manchester, NH (35%), Milwaukee, WI (22%), and Norfolk, VA (21%) markets. Our revenue has been directly affected by the current adverse economic conditions. There has been an overall decline in advertising revenue as a result of the slowdown in the economy and advertising spending in general. We expect this trend to continue in the fourth quarter. The decrease in gross political revenue was directly attributable to advertising in the prior year for the 2008 presidential, congressional, senatorial and local races.

Station operating expense for the radio segment was $20,046,000 for the three months ended September 30, 2009, compared with $22,717,000 for the three months ended September 30, 2008, a decline of approximately $2,671,000 or 12%. Same station operating expense decreased $2,824,000 from the prior year quarter. The decrease in same station operating expense primarily resulted from cost reduction initiatives implemented in the first quarter, and reduced commission expense as a result of the decline in net operating revenue. During the current quarter we had an increase in station operating expense of approximately $153,000 attributable to stations we did not own and operate for the entire comparable period.

Operating income in the radio segment decreased $1,643,000 or 19%, to $6,946,000 for the three months ended September 30, 2009, from $8,589,000 for the three months ended September 30, 2008. The decrease was primarily the result of lower same station net operating revenue as described in detail above.

Television Segment

For the three months ended September 30, 2009, net operating revenue of our television segment was $4,261,000 compared with $4,886,000 for the three months ended September 30, 2008, a decrease of $625,000 or 13%. The decline in net operating revenue was primarily the result of a reduction in gross political revenue of $667,000 as compared to the prior year period. The decrease in gross political revenue was directly attributable to advertising in the prior year for the 2008 presidential, congressional, senatorial and local races.

Station operating expense in the television segment for the three months ended September 30, 2009 was $3,510,000, compared with $3,871,000 for the three months ended September 30, 2008, a decrease of approximately $361,000 or 9%. Station operating expense decreased $194,000 as a result of cost reductions and declines in net operating revenue. Additionally, depreciation expense was approximately $167,000 higher in the prior year quarter primarily as a result of a change in the estimated useful life of television analog equipment in 2008.

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Operating income in the television segment for the three months ended September 30, 2009 was $751,000 compared to $1,297,000 for the three months ended September 30, 2008, a decrease of approximately $546,000 or 42%. The decrease was primarily the result of the decline in net operating revenue as discussed above. Additionally, operating income in the prior year quarter included a $282,000 gain recognized from the exchange of equipment under an arrangement the Company has with Sprint Nextel Corporation.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Results of Operations

The following tables summarize our results of operations for the nine months ended September 30, 2009 and 2008.

Consolidated Results of Operations

	Nine Months Ended September 30,		$ Increase	% Increase
	2009	2008	(Decrease)	(Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 89,014	$ 105,066	$ (16,052)	(15.3)%
Station operating expense	70,791	79,255	(8,464)	(10.7)%
Corporate G&A	6,131	7,611	(1,480)	(19.4)%
Gain on asset exchange		(506)	506	N/M
Operating income	12,092	18,706	(6,614)	(35.4)%
Interest expense	3,589	5,760	(2,171)	(37.7)%
Other (income) expense, net	11	27	(16)	N/M
Income taxes	3,710	5,452	(1,742)	(32.0)%
Net income	$ 4,782	$ 7,467	$ (2,685)	(36.0)%
Earnings per share (basic and diluted)	$ 1.14	$ 1.52	$ (.38)	(25.0)%

Radio Broadcasting Segment

	Nine Months Ended September 30,		$ Increase	% Increase
	2009	2008	(Decrease)	(Decrease)
	(In thousands, except percentages)			
Net operating revenue	$ 77,219	$ 91,316	$ (14,097)	(15.4)%
Station operating expense	60,057	68,028	(7,971)	(11.7)%
Operating income	$ 17,162	$ 23,288	$ (6,126)	(26.3)%

Television Broadcasting Segment

	Nine Months Ended September 30,		$ Increase	% Increase
	2009	2008	(Decrease)	(Decrease)
	(In thousands, except percentages)			

Net operating revenue	$ 11,795	$ 13,750	$ (1,955)	(14.2)%
Station operating expense	10,734	11,227	(493)	(4.4)%
Gain on asset exchange		(506)	506	N/M
Operating income	$ 1,061	$ 3,029	$ (1,968)	(65.0)%

N/M = Not Meaningful

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Reconciliation of segment operating income to consolidated operating income:

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Nine Months Ended September 30, 2009:				
Net operating revenue	$ 77,219	$ 11,795	$	$ 89,014
Station operating expense	60,057	10,734		70,791
Corporate general and administrative			6,131	6,131
Operating income (loss)	$ 17,162	$ 1,061	$ (6,131)	$ 12,092

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Nine Months Ended September 30, 2008:				
Net operating revenue	$ 91,316	$ 13,750	$	$ 105,066
Station operating expense	68,028	11,227		79,255
Corporate general and administrative			7,611	7,611
Gain on asset exchange		(506)		(506)
Operating income (loss)	$ 23,288	$ 3,029	$ (7,611)	$ 18,706

Consolidated

For the nine months ended September 30, 2009, consolidated net operating revenue was $89,014,000 compared with $105,066,000 for the nine months ended September 30, 2008, a decline of approximately $16,052,000 or 15%. We had a decrease of approximately $17,012,000 in net operating revenue generated by stations that we owned or operated for the comparable period in 2008 (same station), and an increase in net operating revenue of approximately $960,000 attributable to stations we did not own and operate for the entire comparable period. Same station gross national revenue and same station gross local revenue decreased approximately $3,976,000 and $13,152,000, respectively. Same station gross political revenue decreased approximately $2,503,000. The decrease in both gross national and gross local revenue was primarily the result of revenue downturns in most of our markets. There were considerable revenue declines in our Charlottesville, VA (31%), Columbus, OH (21%), Manchester, NH (34%), Milwaukee, WI (21%), Norfolk, VA (29%) and Joplin, MO (16%) markets. Our revenue has been directly affected by the current adverse economic conditions. There has been an overall decline in advertising revenue as a result of the slowdown in the economy and advertising spending in general. We expect this trend to continue in the fourth quarter. The decrease in gross political revenue was directly attributable to advertising in the prior year for the 2008 presidential, congressional, senatorial and local races.

Station operating expense was $70,791,000 for the nine months ended September 30, 2009, compared with $79,255,000 for the nine months ended September 30, 2008, a decrease of approximately $8,464,000 or 11%. Approximately $8,938,000 of the decrease was attributable to stations we owned and operated for the entire comparable period. The decrease in same station operating expense primarily resulted from cost reduction initiatives implemented in the first quarter, and reduced commission expense as a result of the decline in net operating revenue. Station operating expense increased approximately $474,000 from stations that we did not own or operate for the comparable period in 2008.

Operating income for the nine months ended September 30, 2009 was $12,092,000 compared to $18,706,000 for the nine months ended September 30, 2008, a decrease of approximately $6,614,000, or 35%. The decrease was the result of reduced net operating revenue and lower station operating expense, described in detail above, and a $1,480,000 or 19% decrease in corporate general and administrative charges. Additionally, operating income in the prior year period included a $506,000 gain from the exchange of equipment under an arrangement we have with Sprint Nextel Corporation. The decrease in corporate general and administrative charges was primarily attributable to reductions of approximately $700,000 in compensation related costs, and overall reductions in interactive fees and travel and travel related expenses, including cost savings from the cancellation of the Company s annual managers meeting.

We generated net income of approximately $4,782,000 ($1.14 per share on a fully diluted basis) during the nine months ended September 30, 2009, compared with $7,467,000 ($1.52 per share on a fully diluted basis) for the nine months ended September 30, 2008, a decrease of approximately $2,685,000 or 36%. The decrease was primarily the result of a decline in operating income of $6,614,000, offset by decreases in interest expense and income tax expense of $2,171,000 and $1,742,000, respectively. The decrease in interest expense was attributable to a reduction in average market interest rates of approximately 2.3% as compared to the prior year, partially offset by an increase in the amortization of debt issuance costs. The decrease in income tax expense was directly attributable to operating performance.

Radio Segment

For the nine months ended September 30, 2009, net operating revenue of the radio segment was $77,219,000 compared with $91,316,000 for the nine months ended September 30, 2008, a decrease of $14,097,000 or 15%. During 2009 we had an increase in net operating revenue of approximately $960,000 attributable to stations we did not own and operate for the entire comparable period. We had a decrease of approximately $15,057,000 in net operating revenue generated by radio stations that we owned or operated for the comparable period in 2008 (same station). Same station gross national revenue and same station gross local revenue decreased approximately $3,261,000 and $12,594,000, respectively. Same station gross political revenue decreased approximately $1,471,000. The decrease in both gross national and gross local revenue was primarily the result of revenue downturns in most of our markets. There were considerable revenue declines in our Charlottesville, VA (31%), Columbus, OH (21%), Manchester, NH (34%), Milwaukee, WI (21%) and Norfolk, VA (29%) markets. Our revenue has been directly affected by the current adverse economic conditions. There has been an overall decline in advertising revenue as a result of the slowdown in the economy and advertising spending in general. We expect this trend to continue in the fourth quarter. The decrease in gross political revenue was directly attributable to advertising in the prior year for the 2008 presidential, congressional, senatorial and local races.

Station operating expense for the radio segment was $60,057,000 for the nine months ended September 30, 2009, compared with $68,028,000 for the nine months ended September 30, 2008, a decrease of approximately $7,971,000 or 12%. The decrease resulted from a decrease of $8,445,000 in same station operating expense, offset by an increase of $474,000 from the operation of radio stations that we did not own or operate for the comparable period in 2008. The decrease in same station operating expense primarily resulted from cost reduction initiatives implemented in the first quarter, and reduced commission expense as a result of the decline in net operating revenue.

Operating income in the radio segment for the nine months ended September 30, 2009 was $17,162,000 compared to $23,288,000 for the nine months ended September 30, 2008, a decrease of approximately $6,126,000 or 26%. The decrease was attributable to lower same station net operating revenue as discussed above.

Television Segment

For the nine months ended September 30, 2009, net operating revenue of our television segment was $11,795,000 compared with $13,750,000 for the nine months ended September 30, 2008, a decrease of $1,955,000 or 14%. Gross national revenue and gross local revenue decreased approximately $715,000 and $558,000, respectively. Gross political revenue decreased approximately $1,032,000 in the current year as compared to the prior year period. All of our television markets have been directly affected by the current adverse economic conditions. There has been an overall decline in advertising revenue as a result of the slowdown in the economy and advertising spending in general. We expect this trend to continue in the fourth quarter. The decrease in gross political revenue was directly attributable to advertising in the prior year for the 2008 presidential, congressional, senatorial and local races.

Station operating expense in the television segment for the nine months ended September 30, 2009 was $10,734,000, compared with $11,227,000 for the nine months ended September 30, 2008, a decrease of approximately $493,000 or 4%. Although departmental expenses of the television segment have been reduced approximately 7% in the current year, depreciation expense has increased approximately $163,000 as a result of the acceleration in the estimated useful life of television analog equipment.

Operating income in the television segment for the nine months ended September 30, 2009 was $1,061,000 compared to $3,029,000 for the nine months ended September 30, 2008, a decrease of approximately $1,968,000 or 65%. The decrease was primarily the result of the decline in net operating revenue as discussed above. Also contributing to the decrease in operating income was a $506,000 gain recognized in the prior year from the exchange of equipment under an arrangement the Company has with Sprint Nextel Corporation.

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 2009 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, 2008.

Liquidity and Capital Resources

Debt Arrangements and Debt Service Requirements

As of September 30, 2009, we had $130,578,000 of long-term debt (including the current portion thereof) outstanding and approximately $19,250,000 of unused borrowing capacity under our Credit Agreement.

The Credit Agreement is a $148,750,000 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 and capital expenditures.

On March 9, 2009, we amended our Credit Agreement to (i) exclude certain items from the definition of Fixed Charges effective December 31, 2008, (ii) increase the minimum Fixed Charge Coverage ratio effective December 31, 2008, (iii) increase the maximum Leverage Ratio effective December 31, 2008, (iv) reduce the Revolving Commitments to $150,000,000, (v) revise the interest rates and commitment fees and (vi) impose certain other limitations on the Company with respect to restricted payments, acquisitions and stock purchases. In addition, we agreed to pay each lender a fee. The lender fee plus amendment costs were approximately $1 million.

On December 31, 2009, the Revolving Commitments will be permanently reduced by $8,750,000 and will continue to be permanently reduced at the end of each calendar quarter thereafter in amounts ranging from 5.0% to 12.5% of the original total Revolving Commitment of $200,000,000. 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. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012.

At September 30, 2009, due to the scheduled reductions, we are required to make a $9,500,000 payment on June 30, 2010 (of which $5,000,000 was paid in October 2009), and a $10,000,000 payment on both September 30, 2010 and December 31, 2010. We are actively seeking new debt financing, and expect to have either an amendment to the Credit Agreement or a new loan in place no later than March 2010. However, there are no assurances that new financing will be available on acceptable terms, if at all, and if necessary we anticipate making the required payments from cash on hand and funds generated from operations.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2009) 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.

Sources and Uses of Cash

During the nine months ended September 30, 2009 and 2008, we had net cash flows from operating activities of $18,649,000 and $18,185,000, 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.

In January 2008, our board of directors authorized an increase to our Stock Buy-Back Program so that we may purchase a total of $60,000,000 of our Class A Common Stock. From the inception of the Stock Buy-Back program in 1998 through September 30, 2009, we have repurchased 1,382,085 shares of our Class A Common Stock for approximately $45,482,000. Approximately 5,700 shares were retained for payment of withholding taxes related to the vesting of restricted stock during the nine months ended September 30, 2009 for $20,000. The terms of the Credit Agreement, as amended on March 9, 2009, restrict our ability to repurchase our Class A Common Stock.

On October 28, 2009, the Company made a $5,000,000 debt payment on the outstanding balance of our Credit Agreement.

Our capital expenditures, exclusive of acquisitions, for the nine months ended September 30, 2009 were approximately $3,237,000 ($5,134,000 in 2008). We anticipate capital expenditures in 2009 to be approximately $4,000,000 to $4,200,000, 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 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 Operation Summary Disclosures About Contractual Obligations and Commercial Commitments in our Annual Report on Form 10-K for the year ended December 31, 2008.

There have been no material changes to such contracts/commitments during the nine months ended September 30, 2009. On March 9, 2009, we amended our Credit Agreement; however, there were no material changes to our cash obligations. See Debt Arrangements and Debt Service Requirements above for additional information regarding the amendment to the Credit Agreement.

We anticipate that our contractual cash obligations will be financed through funds generated from operations or refinance our obligations under the Credit Agreement, or a combination thereof.

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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, 2008.

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, 2008 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2008 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, 2009, that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

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PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

On April 16, 2009, Aldav, LLC (Aldav) filed a complaint in the United States District Court for the Eastern District of Texas, Tyler Division, against Saga and certain other radio companies alleging infringement of its patent relating to in-stream ad insertion. Among other things, Aldav is seeking an injunction, actual damages and enhanced damages. Saga has a license agreement with Ando Media LLC (Ando) to use in-stream ad insertion. Ando is an affiliate of Robert Maccini, a former director of Saga. Under the license agreement, Saga is indemnified for third-party claims related to a breach of the representation by Ando that its grant of the license does not infringe upon the rights of any third party. Saga intends to vigorously defend its position. If there is an adverse outcome in the litigation and we are unable to uphold the terms of our indemnification agreement with Ando, that could cause a material adverse effect to our financial position.

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 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: November 9, 2009

/s/ SAMUEL D. BUSH
Samuel D. Bush
Senior Vice President, Chief Financial Officer and
Treasurer (Principal Financial Officer)

Date: November 9, 2009

/s/ CATHERINE A. BOBINSKI
Catherine A. Bobinski
Vice President, Corporate Controller and
Chief Accounting Officer (Principal Accounting Officer)