

SAGA COMMUNICATIONS INC

Form 10-Q

November 12, 2010

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

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarterly Period ended September 30, 2010**

or

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

**For the transition period from            to  
Commission file number 1-11588  
Saga Communications, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**38-3042953**  
*(I.R.S. Employer  
Identification No.)*

**73 Kercheval Avenue**  
**Grosse Pointe Farms, Michigan**  
*(Address of principal executive offices)*

**48236**  
*(Zip Code)*

**(313) 886-7070**

*(Registrant's telephone number, including area code)*

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting  
Company

(Do not check if a smaller  
reporting company)

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

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 10, 2010 was 3,658,202 and 598,643, respectively.



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

	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009 (Note)</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,497	\$ 12,899
Short-term investments	2,009	
Accounts receivable, net	19,153	19,096
Prepaid expenses and other current assets	1,807	2,345
Barter transactions	1,733	1,681
Deferred income taxes	931	873
Total current assets	<b>39,130</b>	36,894
Property and equipment	<b>158,385</b>	158,011
Less accumulated depreciation	<b>91,912</b>	88,795
Net property and equipment	<b>66,473</b>	69,216
Other assets:		
Broadcast licenses, net	<b>90,552</b>	90,552
Other intangibles, deferred costs and investments, net	<b>6,565</b>	5,689
Total other assets	<b>97,117</b>	96,241
	<b>\$ 202,720</b>	\$ 202,351
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 1,711	\$ 1,345
Payroll and payroll taxes	<b>6,086</b>	5,494
Other accrued expenses	<b>3,092</b>	3,422
Barter transactions	<b>1,968</b>	1,802
Current portion of long-term debt	<b>11,088</b>	17,078
Total current liabilities	<b>23,945</b>	29,141
Deferred income taxes	<b>5,592</b>	1,907
Long-term debt	<b>94,490</b>	104,000
Other liabilities	<b>3,395</b>	3,210
<b>Stockholders equity</b>		
Common stock	53	53
Additional paid-in capital	<b>50,085</b>	49,371
Retained earnings	<b>53,633</b>	43,064

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Treasury stock	<b>(28,473)</b>	(28,395)
Total stockholders' equity	<b>75,298</b>	64,093
	<b>\$ 202,720</b>	\$ 202,351

Note: The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to unaudited condensed consolidated financial statements.

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**SAGA COMMUNICATIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Unaudited)			
	(In thousands, except per share data)			
Net operating revenue	<b>\$ 32,810</b>	\$ 31,253	<b>\$ 93,684</b>	\$ 89,014
Station operating expense	<b>23,629</b>	23,556	<b>69,346</b>	70,791
Corporate general and administrative	<b>1,741</b>	1,906	<b>5,520</b>	6,131
Operating income	<b>7,440</b>	5,791	<b>18,818</b>	12,092
Other expenses, net:				
Interest expense	<b>1,375</b>	1,386	<b>4,362</b>	3,589
Other (income) expense, net	<b>13</b>	43	<b>(3,398)</b>	11
Income before income tax	<b>6,052</b>	4,362	<b>17,854</b>	8,492
Income tax provision	<b>2,495</b>	1,892	<b>7,285</b>	3,710
Net income	<b>\$ 3,557</b>	\$ 2,470	<b>\$ 10,569</b>	\$ 4,782
Earnings per share				
Basic	<b>\$ .84</b>	\$ .58	<b>\$ 2.50</b>	\$ 1.14
Diluted	<b>\$ .84</b>	\$ .58	<b>\$ 2.50</b>	\$ 1.14
Weighted average common shares	<b>4,236</b>	4,227	<b>4,230</b>	4,202
Weighted average common and common equivalent shares	<b>4,236</b>	4,227	<b>4,230</b>	4,203

See notes to unaudited condensed consolidated financial statements.

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

	<b>Nine Months Ended  September 30,  2010            2009  (Unaudited)  (In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Cash provided by operating activities	\$ 19,229	\$ 18,649
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(3,259)	(3,237)
Proceeds from license downgrade	3,561	
Purchases of short-term investments	(2005)	
Other investing activities	153	89
Net cash used in investing activities	(1,550)	(3,148)
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(15,500)	(4,850)
Payments for debt issuance costs	(1,503)	(967)
Purchase of shares held in treasury	(78)	(20)
Other financing activities		(7)
Net cash used in financing activities	(17,081)	(5,844)
Net increase in cash and cash equivalents	598	9,657
Cash and cash equivalents, beginning of period	12,899	6,992
Cash and cash equivalents, end of period	\$ 13,497	\$ 16,649

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****SAGA COMMUNICATIONS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Summary of Significant Accounting Policies*****Basis of Presentation***

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of September 30, 2010 and the results of operations for the three and nine months ended September 30, 2010 and 2009. Results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2009.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2010, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

***Earnings Per Share Information***

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands, except per share data)</b>			
Numerator:				
Net income available to common stockholders	\$ 3,557	\$ 2,470	\$ 10,569	\$ 4,782
Denominator:				
Denominator for basic earnings per share-weighted average shares	4,236	4,227	4,230	4,202
Effect of dilutive securities:				
Common stock equivalents				1
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	4,236	4,227	4,230	4,203
Basic earnings per share	\$ 0.84	\$ .58	\$ 2.50	\$ 1.14
Diluted earnings per share	\$ 0.84	\$ .58	\$ 2.50	\$ 1.14

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation was 336,000 for the three and nine months ended September 30, 2010 and 388,000 for the three and nine months ended

September 30, 2009. These options were excluded from the computation of diluted earnings per share because the exercise prices of the options were higher than the average market price of the Company's common stock for the respective periods. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

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

***Change in Accounting Estimate***

In the second quarter of 2008, the Company reviewed the estimated useful lives of its television analog equipment. This review was performed because of the Federal Communications Commission's (FCC) mandatory requirement that all television stations convert from analog to digital spectrum by February 2009. As a result of this review, the Company's depreciation rate of its analog equipment was increased to reflect the estimated period during which these assets would 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 \$0.07, respectively, for the nine months ended September 30, 2009. The change in estimate had no effect on the three months ended September 30, 2009. There was no effect on depreciation expense in 2010 as the analog equipment was fully depreciated as of December 31, 2009.

***Fair Value of Financial Instruments***

Short-term investments, which include time deposits and certificates of deposit, approximate fair value due to their short maturities.

***Income Taxes***

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

***Time Brokerage Agreements***

We have entered into Time Brokerage Agreements (TBAs) or Local Marketing Agreements (LMAs) 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 its own commercial advertising announcements during the time periods specified. Revenue and expenses related to TBAs/LMAs are included in the accompanying unaudited Condensed Consolidated Statements of Income.

**2. Recent Accounting Pronouncements**

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

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

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

**3. Intangible Assets**

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

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

**4. Common Stock and Treasury Stock**

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through September 30, 2010:

	<b>Common Stock Issued</b>	
	<b>Class A</b>	<b>Class B</b>
	<b>(Shares in thousands)</b>	
Balance, January 1, 2009	4,770	600
Exercised options	2	
Conversion of shares	1	(1)
Forfeiture of restricted stock	(2)	
Balance, December 31, 2009	4,771	599
Conversion of shares	1	(1)
Forfeiture of restricted stock	(2)	
Balance, September 30, 2010	4,770	598

We have a Stock Buy-Back Program (the Buy-Back Program) to allow us to purchase up to \$60,000,000 of our Class A Common Stock. From its inception in 1998 through September 30, 2010, we have repurchased 1,387,551 shares of our Class A Common Stock for approximately \$45,560,000. The terms of the Credit Agreement, as amended, limit our ability to repurchase our Class A Common Stock.

**5. Stock-Based Compensation*****2005 Incentive Compensation Plan***

On May 9, 2005, our stockholders approved the 2005 Incentive Compensation Plan which replaced our 2003 Stock Option Plan (the 2003 Plan) as to future grants. Our stockholders approved the Amended and Restated 2005 Incentive Compensation Plan (the 2005 Plan) in May 2010. The 2005 Plan extends through March 10, 2015 and allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to officers and a selected number of employees.

***Stock-Based Compensation***

Compensation expense of approximately \$113,000 and \$439,000, respectively, and related tax benefits of \$47,000 and \$180,000, respectively, was recognized for the three and nine months ended September 30, 2010. For the three and nine months ended September 30, 2009, the Company recognized compensation expense of approximately \$220,000 and \$638,000, respectively, and related tax benefits of \$97,000 and \$281,000, respectively. Compensation expense is reported in corporate general and administrative expenses in our results of operations.

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

The following summarizes the stock option transactions for the 2005 and 2003 Plans and the 1992 Stock Option Plan (the 1992 Plan ) for the nine months ended September 30, 2010:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	388,469	\$ 54.56	4.2	\$
Granted				
Exercised				
Expired	(48,590)	66.49		
Forfeited	(3,645)	36.94		
Outstanding at September 30, 2010	336,234	\$ 53.03	3.6	\$
Exercisable at September 30, 2010	301,079	\$ 54.92	3.3	\$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2010:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2010	80,453	\$ 19.74
Granted		
Vested	(41,653)	20.88
Forfeited/canceled	(3,645)	18.59
Non-vested at September 30, 2010	35,155	\$ 18.51

The following summarizes the restricted stock transactions for the nine months ended September 30, 2010:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2010	37,368	\$ 31.45
Granted		
Vested	(14,097)	35.92
Forfeited	(2,151)	28.85

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Non-vested and outstanding at September 30, 2010	21,120	\$	28.73
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For the three and nine months ended September 30, 2010 and the three and nine months ended September 30, 2009, we had approximately \$74,000, \$276,000, \$128,000 and \$380,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. The associated tax benefit recognized for the three and nine months ended September 30, 2010 and the three and nine months ended September 30, 2009 was approximately \$31,000, \$113,000, \$56,000 and \$167,000, respectively.

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

**6. Long-Term Debt**

Long-term debt consisted of the following:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
Credit Agreement:		
Reducing revolver facility	\$ 104,500	\$ 120,000
Secured debt of affiliate	1,078	1,078
	105,578	121,078
Amounts payable within one year	11,088	17,078
	\$ 94,490	\$ 104,000

Our Credit Agreement is a reducing revolving line of credit maturing on July 29, 2012. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries' stock and by a guarantee of our subsidiaries. The Company's unused borrowing capacity under the Credit Agreement was \$5.1 million at September 30, 2010.

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

The Revolving Commitments will be permanently reduced by \$2.5 million at the end of each calendar quarter. In addition, each calendar quarter the Revolving Commitments shall be further reduced by 75% of Excess Cash Flow (as defined in the Credit Agreement), which we estimate to be \$5.4 million for the twelve month period ending September 30, 2011. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. Interest on the Credit Agreement is at a variable rate, and as such the debt obligation outstanding approximates fair value.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2010) that, among other things, require us to maintain specified financial ratios and imposes certain limitations on us with respect to additional indebtedness, acquisitions, the incurrence of additional liens, the disposition of assets, the payment of cash dividends, repurchases of our Class A Common Stock, mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement.

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

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

**7. Segment Information**

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

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

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Three Months Ended September 30, 2010:</b>				
Net operating revenue	\$ 28,089	\$ 4,721	\$	\$ 32,810
Station operating expense	20,134	3,495		23,629
Corporate general and administrative			1,741	1,741
Operating income (loss)	\$ 7,955	\$ 1,226	\$ (1,741)	\$ 7,440
Depreciation and amortization	\$ 1,447	\$ 438	\$ 57	\$ 1,942

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Three Months Ended September 30, 2009:</b>				
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

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Nine Months Ended September 30, 2010:</b>				
Net operating revenue	\$ 80,894	\$ 12,790	\$	\$ 93,684
Station operating expense	59,184	10,162		69,346
Corporate general and administrative			5,520	5,520



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Operating income (loss)	\$ 21,710	\$ 2,628	\$ (5,520)	\$ 18,818
Depreciation and amortization	\$ 4,312	\$ 1,271	\$ 163	\$ 5,746
Total assets	\$ 152,136	\$ 26,806	\$ 23,778	\$ 202,720

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Nine Months Ended September 30, 2009:</b>				
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

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2009. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are reflected only in our discussion of consolidated results.

For purposes of business segment reporting, we have aligned operations with similar characteristics into two business segments: Radio and Television. The Radio segment includes twenty-three markets, which includes all ninety-one of our radio stations and five radio information networks. The Television segment includes three markets and consists of five television stations and four LPTV stations. The discussion of our operating performance focuses on segment operating income because we manage our segments primarily on operating income. Operating performance is evaluated for each individual market.

**General**

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

**Radio Segment**

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

Most advertising contracts are short-term and generally run for a few weeks only. The majority of our revenue is generated from local advertising, which is sold primarily by each radio markets' sales staff. For the nine months ended September 30, 2010 and 2009, approximately 87% of our radio segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representative firms that specialize in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a significant increase in political advertising for 2010 due to the number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Beginning in the last quarter of 2008 and continuing throughout 2009, the global economic recession had significant adverse effects on our revenue. We began to see revenue improvements in the fourth quarter of 2009 and first, second and third quarters of 2010 as compared to the same periods in the prior years. The level of advertising spending has not returned to pre-recession levels, and in the months of June and September 2010 our uptrend in revenue slowed. We expect to continue to see revenue improvements for the fourth quarter of 2010, primarily attributable to political advertising increases. Recent U.S. economic data has been below expectations, prompting renewed concern about the sustainability and pace of the economic recovery, and renewed reductions in advertising spending could adversely affect our operating results.

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

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Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers. In a number of our markets this is measured by periodic reports generated by independent national rating services. In the remainder of our markets it is measured by the results advertisers obtain through the actual running of an advertising schedule. Advertisers measure these results based on increased demand for their goods or services and/or actual revenues generated from such demand. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming, local market competition, target marketing capability of radio compared to other advertising media and signal strength.

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

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

Our radio stations employ a variety of programming formats. We periodically perform market research, including music evaluations, focus groups and strategic vulnerability studies. Because reaching a large and demographically attractive audience is crucial to a station's financial success, we endeavor to develop strong listener loyalty. Our stations also employ audience promotions to further develop and secure a loyal following. We believe that the diversification of formats on our radio stations helps to insulate us from the effects of changes in musical tastes of the public on any particular format.

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

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

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

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

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During the nine months ended September 30, 2010 and 2009 and the years ended December 31, 2009 and 2008, our Bellingham, Washington; Des Moines, Iowa; Manchester, New Hampshire; and Milwaukee, Wisconsin markets, when combined, represented approximately 30%, 31%, 30% and 32%, respectively, of our consolidated net operating revenue. An adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole.

The following table describes 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,	
	2010	2009	2009	2008
<b>Market:</b>				
Bellingham, Washington	5%	5%	5%	5%
Des Moines, Iowa	6%	7%	7%	7%
Manchester, New Hampshire	6%	5%	5%	6%
Milwaukee, Wisconsin	13%	14%	13%	14%

We use certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP) to assess our financial performance. For example, we evaluate the performance of our markets based on station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization, impairment of intangible assets, less gain on asset exchange). Station operating income is generally recognized by the broadcasting industry as a measure of performance, is used by analysts who report on the performance of the broadcasting industry, and it serves as an indicator of the market value of a group of stations. In addition, we use it to evaluate individual stations, market-level performance, overall operations and as a primary measure for incentive based compensation of executives and other members of management. Station operating income is not necessarily indicative of amounts that may be available to us for debt service requirements, other commitments, reinvestment or other discretionary uses. Station operating income is not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for our results of operations presented on a GAAP basis.

During the nine months ended September 30, 2010 and 2009 and the years ended December 31, 2009 and 2008, the radio stations in our four largest markets when combined, represented approximately 37%, 43%, 41% and 42%, respectively, of our consolidated station operating income. The following table describes 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,	
	2010	2009	2009	2008
<b>Market:</b>				
Bellingham, Washington	7%	7%	7%	7%
Des Moines, Iowa	5%	7%	7%	4%
Manchester, New Hampshire	8%	8%	7%	11%

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Milwaukee, Wisconsin	17%	21%	20%	20%
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\* Operating income (excluding non-cash impairment charge) plus corporate general and administrative expenses, depreciation and amortization, less gain on asset exchange.

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**Television Segment**

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

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

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers, as measured principally by periodic reports by independent national rating services. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming through locally produced news, sports and weather and as a result of syndication and network affiliation agreements, local market competition, the ability of television broadcasting to reach a mass appeal market compared to other advertising media, and signal strength including cable/satellite coverage, and government regulation and policies.

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

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

Most of our revenue is generated from local advertising, which is sold primarily by each television market's sales staff. For the nine months ended September 30, 2010 and 2009, approximately 81% and 83%, respectively, of our television segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a significant increase in political advertising for 2010 due to the number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Beginning in the last quarter of 2008 and continuing throughout 2009, the global economic recession had significant adverse effects on our revenue. We began to see revenue improvements in the fourth quarter of 2009 and first and second quarters of 2010 as compared to the same periods in the prior years. The level of advertising spending has not returned to pre-recession levels, and in June 2010 our uptrend in revenue slowed. We expect to continue to see revenue improvements for the remainder of 2010, however, at a lower rate than we realized in the first quarter of 2010. Recent U.S. economic data has been below expectations, prompting renewed concern about the sustainability and pace of the economic recovery, and renewed reductions in advertising spending could adversely affect our operating results.

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

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Our television market in Joplin, Missouri represented approximately 13%, 11%, 14% and 14%, respectively, of our consolidated operating income (excluding non-cash impairment charge) for the nine months ended September 30, 2010 and 2009 and the years ended December 31, 2009 and 2008.

**Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009****Results of Operations**

The following tables summarize our results of operations for the three months ended September 30, 2010 and 2009.

**Consolidated Results of Operations**

	Three Months Ended		\$	%
	September 30, 2010	September 30, 2009		
	(In thousands, except percentages and per share information)			
Net operating revenue	\$ 32,810	\$ 31,253	\$ 1,557	5.0%
Station operating expense	23,629	23,556	73	0.3%
Corporate G&A	1,741	1,906	(165)	(8.7)%
Operating income	7,440	5,791	1,649	28.5%
Interest expense	1,375	1,386	(11)	(0.8)%
Other (income) expense, net	13	43	(30)	N/M
Income taxes	2,495	1,892	603	31.9%
Net income	\$ 3,557	\$ 2,470	\$ 1,087	44.0%
Earnings per share (basic and diluted)	\$ .84	\$ .58	\$ .26	44.8%

**Radio Broadcasting Segment**

	Three Months Ended		\$	%
	September 30, 2010	September 30, 2009		
	(In thousands, except percentages)			
Net operating revenue	\$ 28,089	\$ 26,992	\$ 1,097	4.1%
Station operating expense	20,134	20,046	88	0.4%
Operating income	\$ 7,955	\$ 6,946	\$ 1,009	14.5%

**Television Broadcasting Segment**

	Three Months Ended		\$	%
	September 30, 2010	September 30, 2009		
	(In thousands, except percentages)			
Net operating revenue	\$ 4,721	\$ 4,261	\$ 460	10.8%

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Station operating expense	3,495	3,510	(15)	(0.4)%
Operating income	\$ 1,226	\$ 751	\$ 475	63.2%

N/M = Not Meaningful



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

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Three Months Ended September 30, 2010:</b>				
Net operating revenue	\$ 28,089	\$ 4,721	\$	\$ 32,810
Station operating expense	20,134	3,495		23,629
Corporate general and administrative			1,741	1,741
Operating income (loss)	\$ 7,955	\$ 1,226	\$ (1,741)	\$ 7,440

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Three Months Ended September 30, 2009:</b>				
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

***Consolidated***

For the three months ended September 30, 2010, consolidated net operating revenue was \$32,810,000 compared with \$31,253,000 for the three months ended September 30, 2009, an increase of approximately \$1,557,000 or 5%. Gross national revenue and gross local revenue increased approximately \$167,000 and \$752,000, respectively. Gross political revenue increased approximately \$860,000. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was attributable to political advertising related to the November congressional, senatorial, gubernatorial and local elections.

Station operating expense was \$23,629,000 for the three months ended September 30, 2010, compared with \$23,556,000 for the three months ended September 30, 2009, an increase of \$73,000 or less than 1%. The increase in station operating expense was primarily attributable to an increase in advertising and promotion spending of \$220,000, partially offset by cost reductions in our programming and ratings services.

Operating income for the three months ended September 30, 2010 was \$7,440,000 compared to \$5,791,000 for the three months ended September 30, 2009, an increase of approximately \$1,649,000. The increase was a direct result of the improvement in net operating revenue, described in detail above, and a \$165,000 or 9% decrease in corporate general and administrative charges. The decrease in corporate general and administrative charges was attributable to overall expense reductions.

We generated net income of approximately \$3,557,000 (\$.84 per share on a fully diluted basis) during the three months ended September 30, 2010, compared with \$2,470,000 (\$.58 per share on a fully diluted basis) for the three months ended September 30, 2009, an increase of approximately \$1,087,000. The increase was the result of an increase in operating income of \$1,649,000 partially offset by an increase in income tax expense of \$603,000. The increase in income tax expense was directly attributable to operating performance.

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***Radio Segment***

For the three months ended September 30, 2010, net operating revenue of the radio segment was \$28,089,000 compared with \$26,992,000 for the three months ended September 30, 2009, which represents an increase of \$1,097,000 or 4%. Gross national revenue and gross local revenue increased approximately \$114,000 and \$620,000, respectively. Gross political revenue increased approximately \$512,000 in the current quarter as compared to the prior year period. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was primarily attributable to political advertising on our networks and in two of our radio markets.

Station operating expense for the radio segment was \$20,134,000 for the three months ended September 30, 2010, compared with \$20,046,000 for the three months ended September 30, 2009, an increase of approximately \$88,000 or less than 1%. The increase in station operating expense was primarily attributable to an increase in advertising and promotion spending of \$200,000, partially offset by cost reductions in our programming services.

Operating income in the radio segment increased \$1,009,000 to \$7,955,000 for the three months ended September 30, 2010, from \$6,946,000 for the three months ended September 30, 2009. The increase was a direct result of the improvement in net operating revenue described in detail above.

***Television Segment***

For the three months ended September 30, 2010, net operating revenue of our television segment was \$4,721,000 compared with \$4,261,000 for the three months ended September 30, 2009, an increase of \$460,000 or 11%. Gross national revenue and gross local revenue increased approximately \$53,000 and \$132,000, respectively. Gross political revenue increased approximately \$348,000 in the current quarter as compared to the prior year period. The increase in net operating revenue was primarily a result of political advertising, and improvements in the U.S. economy and advertising spending in general.

Station operating expense in the television segment for the three months ended September 30, 2010 was \$3,495,000, compared with \$3,510,000 for the three months ended September 30, 2009, a decrease of approximately \$15,000.

Operating income in the television segment for the three months ended September 30, 2010 was \$1,226,000 compared with \$751,000 for the three months ended September 30, 2009, an increase of approximately \$475,000. The increase was a direct result of the improvement in net operating revenue described in detail above.

**Table of Contents****Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009****Results of Operations**

The following tables summarize our results of operations for the nine months ended September 30, 2010 and 2009.

**Consolidated Results of Operations**

	Nine Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
	September 30, 2010	September 30, 2009		
	(In thousands, except percentages and per share information)			
Net operating revenue	\$ 93,684	\$ 89,014	\$ 4,670	5.2%
Station operating expense	69,346	70,791	(1,445)	(2.0)%
Corporate G&A	5,520	6,131	(611)	(10.0)%
Operating income	18,818	12,092	6,726	55.6%
Interest expense	4,362	3,589	773	21.5%
Other (income) expense, net	(3,398)	11	(3,409)	N/M
Income taxes	7,285	3,710	3,575	96.4%
Net income	\$ 10,569	\$ 4,782	\$ 5,787	121.0%
Earnings per share (basic and diluted)	\$ 2.50	\$ 1.14	\$ 1.36	119.3%

**Radio Broadcasting Segment**

	Nine Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
	September 30, 2010	September 30, 2009		
	(In thousands, except percentages)			
Net operating revenue	\$ 80,894	\$ 77,219	\$ 3,675	4.8%
Station operating expense	59,184	60,057	(873)	(1.5)%
Operating income	\$ 21,710	\$ 17,162	\$ 4,548	26.5%

**Television Broadcasting Segment**

	Nine Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
	September 30, 2010	September 30, 2009		
	(In thousands, except percentages)			

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Net operating revenue	\$ 12,790	\$ 11,795	\$ 995	8.4%
Station operating expense	10,162	10,734	(572)	(5.3)%
Operating income	\$ 2,628	\$ 1,061	\$ 1,567	147.7%

N/M = Not Meaningful

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

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Nine Months Ended September 30, 2010:</b>				
Net operating revenue	\$ 80,894	\$ 12,790	\$	\$ 93,684
Station operating expense	59,184	10,162		69,346
Corporate general and administrative			5,520	5,520
Operating income (loss)	\$ 21,710	\$ 2,628	\$ (5,520)	\$ 18,818

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>Nine Months Ended September 30, 2009:</b>				
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

***Consolidated***

For the nine months ended September 30, 2010, consolidated net operating revenue was \$93,684,000 compared with \$89,014,000 for the nine months ended September 30, 2009, an increase of approximately \$4,670,000 or 5%. Gross national revenue and gross local revenue increased approximately \$1,369,000 and \$2,470,000, respectively. Gross political revenue increased approximately \$1,353,000. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was attributable to political advertising related to the November congressional, senatorial, gubernatorial and local elections.

Station operating expense was \$69,346,000 for the nine months ended September 30, 2010, compared with \$70,791,000 for the nine months ended September 30, 2009, a decrease of approximately \$1,445,000 or 2%. Salaries and related expenses for the nine months ended September 30, 2010 decreased approximately \$285,000 from the same period of 2009, primarily as a result of salary and work force reductions during 2009 in response to the difficult economic conditions. Severance costs and ratings service expense decreased approximately \$250,000 and \$500,000, respectively, in the current year. Additionally, depreciation expense was approximately \$750,000 higher in the first nine months of 2009, primarily as a result of a change in the estimated useful life of television analog equipment, which was fully depreciated in 2009. These cost reductions were partially offset by a \$600,000 increase in advertising and promotions expense in 2010 as compared to the same period of the prior year.

Operating income for the nine months ended September 30, 2010 was \$18,818,000 compared to \$12,092,000 for the nine months ended September 30, 2009, an increase of approximately \$6,726,000, or 56%. The increase was a direct result of the improvement in net operating revenue and reduction in station operating expense, described in detail above, and a \$611,000 or 10% decrease in corporate general and administrative charges. The decrease in corporate general and administrative charges was attributable to overall expense reductions.

We generated net income of approximately \$10,569,000 (\$2.50 per share on a fully diluted basis) during the nine months ended September 30, 2010, compared with \$4,782,000 (\$1.14 per share on a fully diluted basis) for the nine

months ended September 30, 2009, an increase of approximately \$5,787,000. The increase was the result of an increase in operating income of \$6,726,000 and an increase in other income of \$3,409,000 offset by increases in interest expense and income tax expense of \$773,000 and \$3,575,000, respectively. In the first quarter of 2010, we had non-recurring income of \$3,561,000 resulting from an agreement to downgrade an FCC license at one of our stations. The increase in interest expense was attributable to an average increase in market interest rates of approximately 0.9%, and an increase in the amortization of debt financing costs, partially offset by the decrease in debt. The increase in income tax expense was directly attributable to operating performance.

**Table of Contents*****Radio Segment***

For the nine months ended September 30, 2010, net operating revenue of the radio segment was \$80,894,000 compared with \$77,219,000 for the nine months ended September 30, 2009, an increase of \$3,675,000 or 5%. Gross national revenue and gross local revenue increased approximately \$872,000 and \$2,222,000, respectively. Gross political revenue increased approximately \$968,000 for the nine months ended September 30, 2010 as compared to the prior year period. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was attributable to political advertising related to the November congressional, senatorial, gubernatorial and local elections.

Station operating expense for the radio segment was \$59,184,000 for the nine months ended September 30, 2010, compared with \$60,057,000 for the nine months ended September 30, 2009, a decrease of approximately \$873,000 or 1%. Salaries and related expenses in the nine months ended September 30, 2010 decreased approximately \$220,000 from the same period of 2009, primarily as a result of salary and work force reductions during 2009 in response to the difficult economic conditions. Severance costs and ratings service expense decreased approximately \$230,000 and \$500,000, respectively, in the current year.

Operating income in the radio segment for the nine months ended September 30, 2010 was \$21,710,000 compared to \$17,162,000 for the nine months ended September 30, 2009, an increase of approximately \$4,548,000 or 27%. The increase was a direct result of the improvement in net operating revenue and reduction in station operating expense, described in detail above.

***Television Segment***

For the nine months ended September 30, 2010, net operating revenue of our television segment was \$12,790,000 compared with \$11,795,000 for the nine months ended September 30, 2009, an increase of \$995,000 or 8%. Gross national revenue and gross local revenue increased approximately \$497,000 and \$248,000, respectively. Gross political revenue increased approximately \$385,000 for the nine months ended September 30, 2010 as compared to the prior year period. The increase in both gross local and gross national revenue was primarily the result of the gradual recovery of the U.S. economy and advertising spending in general. The increase in gross political revenue was attributable to political advertising related to the November congressional, senatorial, gubernatorial and local elections.

Station operating expense in the television segment for the nine months ended September 30, 2010 was \$10,162,000, compared with \$10,734,000 for the nine months ended September 30, 2009, a decrease of approximately \$572,000 or 5%. Depreciation expense was approximately \$512,000 higher in the same period of 2009, primarily as a result of a change in the estimated useful life of television analog equipment, which was fully depreciated in 2009. The remaining decrease in station operating expense is the result of overall cost reductions in the television segment.

Operating income in the television segment for the nine months ended September 30, 2010 was \$2,628,000 compared with \$1,061,000 for the nine months ended September 30, 2009, an increase of approximately \$1,567,000. The increase was a direct result of the improvement in net operating revenue and reduction in station operating expense, described in detail above.

**Table of Contents****Forward-Looking Statements**

Statements contained in this Form 10-Q that are not historical facts are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as believes, anticipates, estimates, plans, expects, and similar expressions are intended to identify forward-looking statements. These statements are made as of the date of this report or as otherwise indicated, based on current expectations. We undertake no obligation to update this information. A number of important factors could cause our actual results for 2010 and beyond to differ materially from those expressed in any forward-looking statements made by or on our behalf. Forward-looking statements are not guarantees of future performance as they involve a number of risks, uncertainties and assumptions that may prove to be incorrect and that may cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks, uncertainties and assumptions that may affect our performance include our financial leverage and debt service requirements, dependence on key personnel, dependence on key stations, U.S. and local economic conditions, our ability to successfully integrate acquired stations, regulatory requirements, new technologies, natural disasters and terrorist attacks. We cannot be sure that we will be able to anticipate or respond timely to changes in any of these factors, which could adversely affect the operating results in one or more fiscal quarters. Results of operations in any past period should not be considered, in and of itself, indicative of the results to be expected for future periods. Fluctuations in operating results may also result in fluctuations in the price of our stock.

For a more complete description of the prominent risks and uncertainties inherent in our business, see Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Liquidity and Capital Resources*****Debt Arrangements and Debt Service Requirements***

As of September 30, 2010, the Company had \$105,578,000 of long-term debt outstanding (including the current portion thereof) and the Company's unused borrowing capacity under its Credit Agreement was \$5.1 million.

The Credit Agreement, as amended and discussed below, is a revolving line of credit maturing on July 29, 2012. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries' stock and by a guarantee of our subsidiaries. The Credit Agreement may be used for general corporate purposes, including working capital and capital expenditures.

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

As of September 30, 2010 we have paid a total of \$15.5 million on the outstanding balance of our Credit Agreement, and in October 2010, we paid down an additional \$4.5 million.

The Revolving Commitments will be permanently reduced by \$2.5 million at the end of each calendar quarter. In addition, the Revolving Commitments shall be further reduced by 75% of Excess Cash Flow (as defined in the Credit Agreement) each calendar quarter. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2010) that, among other things, require us to maintain specified financial ratios and imposes certain limitations on us with respect to additional indebtedness, acquisitions, the incurrence of additional liens, the disposition of assets, the payment of cash dividends, repurchases of our Class A Common Stock, mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement.



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***Sources and Uses of Cash***

During the nine months ended September 30, 2010 and 2009, we had net cash flows from operating activities of \$19,229,000 and \$18,649,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest and scheduled payments of principal under the Credit Agreement. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

Our capital expenditures, exclusive of acquisitions, for the nine months ended September 30, 2010 were approximately \$3,259,000 (\$3,237,000 in 2009). We anticipate capital expenditures in 2010 to be approximately \$4,500,000 to \$5,000,000, which we expect to finance through funds generated from operations.

***Summary Disclosures About Contractual Obligations and Commercial Commitments***

We have future cash obligations under various types of contracts, including the terms of our Credit Agreement, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Summary Disclosures About Contractual Obligations and Commercial Commitments in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There have been no significant changes to our critical accounting policies that are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Inflation**

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

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

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

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**Item 4. Controls and Procedures**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause the material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 6. Exhibits**

- 10(h) Amended and Restated Saga Communications, Inc. 2005 Incentive Compensation Plan.
- 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 Act 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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 12, 2010

/s/ SAMUEL D. BUSH

Samuel D. Bush

*Senior Vice President, Chief Financial  
Officer and Treasurer (Principal Financial  
Officer)*

Date: November 12, 2010

/s/ CATHERINE A. BOBINSKI

Catherine A. Bobinski

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

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