

SAGA COMMUNICATIONS INC

Form 10-Q

November 09, 2011

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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, 2011

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 4, 2011 was 3,654,488 and 597,859, respectively.

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CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2011 (Unaudited)	December 31, 2010 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,547	\$ 12,197
Short-term investments		1,007
Accounts receivable, net	19,481	18,985
Prepaid expenses and other current assets	1,466	2,002
Barter transactions	1,762	1,377
Deferred income taxes	1,048	991
Total current assets	31,304	36,559
Property and equipment	162,195	158,589
Less accumulated depreciation	97,984	93,028
Net property and equipment	64,211	65,561
Other assets:		
Broadcast licenses, net	90,584	90,584
Other intangibles, deferred costs and investments, net	6,091	7,099
Total other assets	96,675	97,683
	\$ 192,190	\$ 199,803
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 1,252	\$ 1,683
Payroll and payroll taxes	6,430	5,524
Other accrued expenses	2,953	3,460
Barter transactions	1,921	1,641
Current portion of long-term debt	4,000	6,121
Total current liabilities	16,556	18,429
Deferred income taxes	11,175	7,105
Long-term debt	72,328	89,957
Other liabilities	3,333	4,234
Total liabilities	103,392	119,725

Commitments and contingencies

Stockholders equity

Common stock	53	53
Additional paid-in capital	50,609	50,298
Retained earnings	66,726	58,200
Treasury stock	(28,590)	(28,473)
 Total stockholders equity	 88,798	 80,078
	\$ 192,190	\$ 199,803

Note: The balance sheet at December 31, 2010 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,	
	2011	2010	2011	2010
	(Unaudited)			
	(In thousands, except per share data)			
Net operating revenue	\$ 32,494	\$ 32,810	\$ 94,385	\$ 93,684
Station operating expense	23,553	23,629	69,912	69,346
Corporate general and administrative	1,965	1,741	5,854	5,520
Operating income	6,976	7,440	18,619	18,818
Other expenses, net:				
Interest expense	646	1,375	2,837	4,362
Write-off revolving credit facility debt issuance costs			1,326	
Other (income) expense, net	27	13		(3,398)
Income before income tax	6,303	6,052	14,456	17,854
Income tax provision	2,609	2,495	5,930	7,285
Net income	\$ 3,694	\$ 3,557	\$ 8,526	\$ 10,569
Earnings per share				
Basic	\$.87	\$.84	\$ 2.01	\$ 2.50
Diluted	\$.87	\$.84	\$ 2.01	\$ 2.50
Weighted average common shares	4,242	4,236	4,238	4,230
Weighted average common and common equivalent shares	4,246	4,236	4,242	4,230

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, 2011 2010 (Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	\$ 19,421	\$ 19,229
Cash flows from investing activities:		
Acquisition of property and equipment	(4,140)	(3,259)
Proceeds from sale of short-term investments	1,018	
Proceeds from license downgrade		3,561
Purchases of short-term investments		(2,005)
Other investing activities	67	153
Net cash used in investing activities	(3,055)	(1,550)
Cash flows from financing activities:		
Payments on long-term debt	(111,850)	(15,500)
Proceeds from long-term debt	92,100	
Payments for debt issuance costs	(1,149)	(1,503)
Purchase of shares held in treasury	(117)	(78)
Net cash used in financing activities	(21,016)	(17,081)
Net (decrease) increase in cash and cash equivalents	(4,650)	598
Cash and cash equivalents, beginning of period	12,197	12,899
Cash and cash equivalents, end of period	\$ 7,547	\$ 13,497

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, 2011 and the results of operations for the three and nine months ended September 30, 2011 and 2010. Results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2011, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

Earnings Per Share Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Numerator:				
Net income available to common stockholders	\$ 3,694	\$ 3,557	\$ 8,526	\$ 10,569
Denominator:				
Denominator for basic earnings per share weighted average shares	4,242	4,236	4,238	4,230
Effect of dilutive securities	4		4	
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	4,246	4,236	4,242	4,230
Basic earnings per share	\$.87	\$.84	\$ 2.01	\$ 2.50
Diluted earnings per share	\$.87	\$.84	\$ 2.01	\$ 2.50

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 228,000 for the three and nine months

ended September 30, 2011 and 336,000 for the three and nine months ended September 30, 2010. 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)**

Fair Value of Financial Instruments

Short-term investments, which include 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 (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.

2. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, which addresses the accounting for multiple-deliverable revenue arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit, and provides guidance regarding how to measure and allocate arrangement consideration to one or more units of accounting. This guidance was effective on January 1, 2011 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 was effective for the Company on January 1, 2011. The guidance adopted on January 1, 2011 did not have a material impact on our consolidated financial statements.

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

3. Intangible Assets

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

Intangible assets that have finite lives are amortized over their useful lives using the straight-line method. Favorable lease agreements are amortized over the lives of the leases ranging from 4 to 26 years. 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, 2011:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2010	4,771	599
Conversion of shares	1	(1)
Forfeiture of restricted stock	(2)	
Balance, December 31, 2010	4,770	598
Conversion of shares	1	(1)
Balance, September 30, 2011	4,771	597

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, 2011, we have repurchased 1,391,586 shares of our Class A Common Stock for approximately \$45,680,000.

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

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

Stock-Based Compensation

Compensation expense of approximately \$34,000 and \$163,000, respectively, and related tax benefits of \$14,000 and \$67,000, respectively, were recognized for the three and nine months ended September 30, 2011. For the three and nine months ended September 30, 2010, the Company recognized compensation expense of approximately \$113,000 and \$439,000, respectively, and related tax benefits of \$47,000 and \$180,000, 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, 2011:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	293,993	\$ 51.70	3.9	\$
Granted				
Exercised				
Expired	(65,916)	58.10		
Forfeited	(282)	37.96		
Outstanding at September 30, 2011	227,795	\$ 49.86	3.9	\$
Exercisable at September 30, 2011	220,785	\$ 50.24	3.8	\$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2011:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2011	35,155	\$ 18.51
Granted		
Vested	(27,863)	18.30
Forfeited/canceled	(282)	19.30
Non-vested at September 30, 2011	7,010	\$ 19.30

The following summarizes the restricted stock transactions for the nine months ended September 30, 2011:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2011	21,120	\$ 28.73
Granted		
Vested	(10,632)	31.28
Forfeited	(463)	25.87
Non-vested and outstanding at September 30, 2011	10,025	\$ 26.15

For the three and nine months ended September 30, 2011 and the three and nine months ended September 30, 2010, we had approximately \$40,000, \$148,000, \$74,000 and \$276,000, 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, 2011 and the three and nine months ended September 30, 2010 was approximately \$17,000, \$61,000, \$31,000 and \$113,000, 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:

	September 30, 2011	December 31, 2010
	(In thousands)	
Credit Agreement:		
Term loan	\$ 59,250	\$
Revolving credit facility	16,000	
Reducing revolver facility		95,000
Secured debt of affiliate	1,078	1,078
	76,328	96,078
Amounts payable within one year	4,000	6,121
	\$ 72,328	\$ 89,957

Future maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	(In thousands)
2011	\$ 1,750
2012	3,000
2013	3,000
2014	4,078
2015	3,000
Thereafter	61,500
	\$ 76,328

On June 13, 2011, we entered into a new \$120 million credit facility (the "Credit Facility") with a group of banks, to refinance our outstanding debt under the credit agreement in place at March 31, 2011 (the "Old Credit Agreement"). The Credit Facility consists of a \$60 million term loan (the "Term Loan") and a \$60 million revolving loan (the "Revolving Credit Facility") and matures on June 13, 2016.

We have pledged substantially all of our assets (excluding our FCC licenses and certain other assets) in support of the Credit Facility and each of our subsidiaries has guaranteed the Credit Facility and has pledged substantially all of their assets (excluding their FCC licenses and certain other assets) in support of the Credit Facility.

We wrote-off unamortized debt issuance costs relating to the Old Credit Agreement of approximately \$1.3 million, pre-tax, due to this refinancing during the quarter ended June 30, 2011.

The proceeds from the Credit Facility were used to refinance our Old Credit Agreement and pay transactional fees. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets,

certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses.

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

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR plus 1.50% to 2.75% or the base rate plus 0.50% to 1.75%. The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment fees of 0.25% to 0.375% per annum on the unused portion of the Revolving Credit Facility.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at September 30, 2011) which, among other things, require us to maintain specified financial ratios and impose certain limitation on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

We had approximately \$44.0 million of unused borrowing capacity under the Revolving Credit Facility at September 30, 2011.

Our Old Credit Agreement was a revolving line of credit maturing on July 29, 2012. Our indebtedness under the Old Credit Agreement was 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 Old Credit Agreement was used for general corporate purposes, including working capital and capital expenditures.

Interest rates under the Old Credit Agreement were payable, at our option, at alternatives equal to LIBOR at the reset date (0.3125% at December 31, 2010) plus 3.00% to 4.25% or the Agent bank's base rate plus 2.00% to 3.25%. The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We were also required to pay quarterly commitment fees of 0.375% to 0.625% per annum on the unused portion of the Old Credit Agreement.

In June 2011, approximately \$1.1 million of secured debt of an affiliate was amended to extend the maturity date to May 2014.

7. Related Party Transactions

Principal Stockholder Employment Agreement

In June 2011, we entered into a new employment agreement with Edward K. Christian, Chairman, President and CEO, which became effective as of June 1, 2011, and replaces and supersedes his prior employment agreement. The new employment agreement terminates on March 31, 2018. The agreement provides for an annual base salary of \$860,000 (subject to annual increases on each anniversary date not less than the greater of 3% or a defined cost of living increase). Mr. Christian may defer any or all of his annual salary.

Under the agreement, Mr. Christian is eligible for discretionary and performance bonuses, stock options and/or stock grants in amounts determined by the Compensation Committee and will continue to participate in the Company's benefit plans. The Company will maintain insurance policies, will furnish an automobile, will pay for an executive medical plan and will maintain an office for Mr. Christian at its principal executive offices and in Sarasota County, Florida. The agreement provides certain payments to Mr. Christian in the event of his disability, death or a change in control. Upon a change in control, Mr. Christian may terminate his employment. The agreement also provides generally that, upon a change in control, the Company will pay Mr. Christian an amount equal to 2.99 times the average of his total annual salary and bonuses for each of the three immediately preceding periods of twelve consecutive months, plus an additional amount for tax liabilities related to the payment.

In addition, if Mr. Christian's employment is terminated for any reason, other than for cause, the Company will continue to provide health insurance and medical reimbursement and maintain existing life insurance policies for a period of ten years, and the current split dollar life insurance policy shall be transferred to Mr. Christian and his wife, and the Company shall reimburse Mr. Christian for any tax consequences of such transfer. The agreement contains a covenant not to compete restricting Mr. Christian from competing with the Company in any of its markets if he voluntarily terminates his employment with the Company or is terminated for cause, for a three year period thereafter.

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

8. Segment Information

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

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

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2011:				
Net operating revenue	\$ 27,885	\$ 4,609	\$	\$ 32,494
Station operating expense	20,029	3,524		23,553
Corporate general and administrative			1,965	1,965
Operating income (loss)	\$ 7,856	\$ 1,085	\$ (1,965)	\$ 6,976
Depreciation and amortization	\$ 1,385	\$ 441	\$ 60	\$ 1,886

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2010:				
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

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Nine Months Ended September 30, 2011:				
Net operating revenue	\$ 81,002	\$ 13,383	\$	\$ 94,385
Station operating expense	59,311	10,601		69,912
Corporate general and administrative			5,854	5,854

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Operating income (loss)	\$ 21,691	\$ 2,782	\$ (5,854)	\$ 18,619
Depreciation and amortization	\$ 4,072	\$ 1,267	\$ 173	\$ 5,512
Total assets	\$ 150,581	\$ 26,910	\$ 14,699	\$ 192,190

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Nine Months Ended September 30, 2010:				
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
Depreciation and amortization	\$ 4,312	\$ 1,271	\$ 163	\$ 5,746
Total assets	\$ 152,136	\$ 26,806	\$ 23,778	\$ 202,720

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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, 2010. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense (benefit) are managed on a consolidated basis and are reflected only in our discussion of consolidated results.

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

General

We are a broadcast company primarily engaged in acquiring, 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 market's sales staff. For the nine months ended September 30, 2011 and 2010, approximately 86% and 87%, 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. We experienced a significant increase in political advertising in 2010 due to the number of congressional, senatorial, gubernatorial and local elections in most of our markets. Since 2011 is not an election year, political revenue has significantly declined in 2011 and we expect this to continue in the fourth quarter.

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.

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 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.

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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. The radio broadcasting industry is subject to rapid technological change, evolving industry standards and the emergence of new media technologies and services (such as the Internet, satellite radio and mp3 players). These recent technologies and media are gaining advertising share against radio and other traditional media.

During the nine months ended September 30, 2011 and 2010 and the years ended December 31, 2010 and 2009, our Bellingham, Washington; Des Moines, Iowa; Manchester, New Hampshire; and Milwaukee, Wisconsin markets, when combined, represented approximately 29%, 30%, 30% and 30%, 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:

Market:	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,	
	2011	2010	2010	2009
Bellingham, Washington	5%	5%	5%	5%
Des Moines, Iowa	7%	6%	6%	7%
Manchester, New Hampshire	5%	6%	6%	5%
Milwaukee, Wisconsin	12%	13%	13%	13%

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, 2011 and 2010 and the years ended December 31, 2010 and 2009, the radio stations in our four largest markets when combined, represented approximately 35%, 37%, 36% and 41%, 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 (*)	Percentage of Consolidated Station Operating Income(*)
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	for the Nine Months Ended September 30,		for the Years Ended December 31,	
	2011	2010	2010	2009
Market:				
Bellingham, Washington	6%	7%	7%	7%
Des Moines, Iowa	6%	5%	4%	7%
Manchester, New Hampshire	7%	8%	8%	7%
Milwaukee, Wisconsin	16%	17%	17%	20%

* 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, 2011 and 2010, approximately 81% 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 experienced a significant increase in political advertising in 2010 due to the number of congressional, senatorial, gubernatorial and local elections in most of our markets. Since 2011 is not an election year, political revenue has significantly declined in 2011 and we expect this to continue in the fourth quarter.

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.

Our television market in Joplin, Missouri represented approximately 11%, 10%, 10% and 10%, respectively, of our consolidated station operating income (operating income excluding non-cash impairment charge in 2009, plus corporate general and administrative expenses, depreciation and amortization, less gain on asset exchange) for the nine months ended September 30, 2011 and 2010 and the years ended December 31, 2010 and 2009.

Table of Contents**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010****Results of Operations**

The following tables summarize our results of operations for the three months ended September 30, 2011 and 2010.

Consolidated Results of Operations

	Three Months Ended		\$	%
	September 30, 2011	September 30, 2010		
	(In thousands, except percentages and per share information)			
Net operating revenue	\$ 32,494	\$ 32,810	\$ (316)	(1.0)%
Station operating expense	23,553	23,629	(76)	(0.3)%
Corporate G&A	1,965	1,741	224	12.9%
Operating income	6,976	7,440	(464)	(6.2)%
Interest expense	646	1,375	(729)	(53.0)%
Other (income) expense, net	27	13	14	N/M
Income taxes	2,609	2,495	114	4.6%
Net income	\$ 3,694	\$ 3,557	\$ 137	3.9%
Earnings per share (basic and diluted)	\$.87	\$.84	\$.03	3.6%

Radio Broadcasting Segment**Three Months Ended**

	Three Months Ended		\$	%
	September 30, 2011	September 30, 2010		
	(In thousands, except percentages)			
Net operating revenue	\$ 27,885	\$ 28,089	\$ (204)	(0.7)%
Station operating expense	20,029	20,134	(105)	(0.5)%
Operating income	\$ 7,856	\$ 7,955	\$ (99)	(1.3)%

Television Broadcasting Segment**Three Months Ended**

	Three Months Ended		\$	%
	September 30, 2011	September 30, 2010		
	(In thousands, except percentages)			
Net operating revenue	\$ 4,609	\$ 4,721	\$ (112)	(2.4)%
Station operating expense	3,524	3,495	29	0.8%
Operating income	\$ 1,085	\$ 1,226	\$ (141)	(11.5)%

N/M = Not Meaningful

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

	Radio	Television	Corporate and Other (In thousands)	Consolidated
Three Months Ended September 30, 2011:				
Net operating revenue	\$ 27,885	\$ 4,609	\$	\$ 32,494
Station operating expense	20,029	3,524		23,553
Corporate general and administrative			1,965	1,965
Operating income (loss)	\$ 7,856	\$ 1,085	\$ (1,965)	\$ 6,976

	Radio	Television	Corporate and Other (In thousands)	Consolidated
Three Months Ended September 30, 2010:				
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

Consolidated

For the three months ended September 30, 2011, consolidated net operating revenue was \$32,494,000 compared with \$32,810,000 for the three months ended September 30, 2010, a decrease of approximately \$316,000 or 1%. Gross national revenue increased approximately \$596,000 and gross local revenue and gross political revenue decreased approximately \$272,000 and \$678,000, respectively, in the current year quarter. The decrease in gross political revenue was attributable to political advertising in the prior year quarter as 2010 was an election year.

Station operating expense was relatively unchanged for the three months ended September 30, 2011, compared with the three months ended September 30, 2010.

Operating income for the three months ended September 30, 2011 was \$6,976,000 compared to \$7,440,000 for the three months ended September 30, 2010, a decrease of approximately \$464,000 or 6%. The decrease in operating income was attributable to the decline in net operating revenue, described above, and an increase in corporate general and administrative charges. The increase in corporate general and administrative charges is primarily from an increase in travel related expenses of \$52,000, and an increase in officers' life insurance expense of \$127,000 that is attributable to a decline in the cash surrender value of the life insurance policies.

We generated net income of approximately \$3,694,000 (\$.87 per share on a fully diluted basis) during the three months ended September 30, 2011, compared with \$3,557,000 (\$.84 per share on a fully diluted basis) for the three months ended September 30, 2010, an increase of approximately \$137,000 or 4%. In the current year quarter we had a decrease in operating income of \$464,000, as described above, and a decrease in interest expense of \$729,000. The decrease in interest expense was attributable to an average decrease in market interest rates, and decreased debt outstanding and amortization expense. Income tax expense increased approximately \$114,000, primarily as a result of the decrease in interest expense and an increase in non-deductible expenses.

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Radio Segment

Net operating revenue of the radio segment was \$27,885,000 for the three months ended September 30, 2011, compared with \$28,089,000 for the three months ended September 30, 2010, a decrease of \$204,000 or less than 1%. Gross national revenue increased approximately \$498,000 for the quarter. Gross political revenue and gross local revenue decreased approximately \$365,000 and \$346,000, respectively. The decrease in gross political revenue was attributable to political advertising in the prior year quarter as 2010 was an election year. The decrease in gross local revenue was primarily the result of a softening in local advertising.

Station operating expense for the radio segment was \$20,029,000 for the three months ended September 30, 2011, compared with \$20,134,000 for the three months ended September 30, 2010, a decrease of approximately \$105,000 or less than 1%. The decrease in station operating expense was primarily from a reduction in sales expense due to lower net operating revenue in the current quarter.

Operating income in the radio segment decreased approximately \$99,000 to \$7,856,000 for the three months ended September 30, 2011, from \$7,955,000 for the three months ended September 30, 2010. The decrease was a direct result of the decrease in net operating revenue partially offset by a decrease in station operating expense described above.

Television Segment

For the three months ended September 30, 2011, net operating revenue of our television segment was \$4,609,000 compared with \$4,721,000 for the three months ended September 30, 2010, a decrease of \$112,000 or 2%. The decrease in net operating revenue during the quarter was primarily the result of a reduction in political revenue in a non-election year.

Station operating expense in the television segment was relatively unchanged for the three months ended September 30, 2011 compared with the three months ended September 30, 2010.

Operating income in the television segment for the three months ended September 30, 2011 was \$1,085,000 compared with \$1,226,000 for the three months ended September 30, 2010, a decrease of approximately \$141,000 or 12%. The decrease was a direct result of the decline in net operating revenue, described above.

Table of Contents**Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010****Results of Operations**

The following tables summarize our results of operations for the nine months ended September 30, 2011 and 2010.

Consolidated Results of Operations

	Nine Months Ended		\$	%
	September 30, 2011	September 30, 2010		
	(In thousands, except percentages and per share information)			
Net operating revenue	\$ 94,385	\$ 93,684	\$ 701	0.8%
Station operating expense	69,912	69,346	566	0.8%
Corporate G&A	5,854	5,520	334	6.1%
Operating income	18,619	18,818	(199)	(1.1)%
Interest expense	2,837	4,362	(1,525)	(35.0)%
Write-off debt issuance costs	1,326		1,326	N/M
Other (income) expense, net		(3,398)	3,398	N/M
Income taxes	5,930	7,285	(1,355)	(18.6)%
Net income	\$ 8,526	\$ 10,569	\$ (2,043)	(19.3)%
Earnings per share (basic and diluted)	\$ 2.01	\$ 2.50	\$ (.49)	(19.6)%

Radio Broadcasting Segment**Nine Months Ended**

	Nine Months Ended		\$	%
	September 30, 2011	September 30, 2010		
	(In thousands, except percentages)			
Net operating revenue	\$ 81,002	\$ 80,894	\$ 108	0.1%
Station operating expense	59,311	59,184	127	0.2%
Operating income	\$ 21,691	\$ 21,710	\$ (19)	(0.1)%

Television Broadcasting Segment**Nine Months Ended**

	Nine Months Ended		\$	%
	September 30, 2011	September 30, 2010		
	(In thousands, except percentages)			
Net operating revenue	\$ 13,383	\$ 12,790	\$ 593	4.6%
Station operating expense	10,601	10,162	439	4.3%
Operating income	\$ 2,782	\$ 2,628	\$ 154	5.9%

N/M = Not Meaningful

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

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Nine Months Ended September 30, 2011:				
Net operating revenue	\$ 81,002	\$ 13,383	\$	\$ 94,385
Station operating expense	59,311	10,601		69,912
Corporate general and administrative			5,854	5,854
Operating income (loss)	\$ 21,691	\$ 2,782	\$ (5,854)	\$ 18,619

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Nine Months Ended September 30, 2010:				
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

Consolidated

For the nine months ended September 30, 2011, consolidated net operating revenue was \$94,385,000 compared with \$93,684,000 for the nine months ended September 30, 2010, an increase of approximately \$701,000 or 1%. Gross national revenue and gross local revenue increased approximately \$1,237,000 and \$693,000, respectively. Gross political revenue decreased approximately \$1,033,000 for the nine months ended September 30, 2011 as compared to the prior year period. The increase in gross national revenue was primarily the result of increased advertising from the financial services and automotive industries. The increase in gross local revenue was primarily a result of increased local advertising in our Joplin, MO market following a tornado that caused significant damage in the market in May 2011, and an increase in advertising spending in general. The decrease in gross political revenue was attributable to political advertising in the prior year as 2010 was an election year.

Station operating expense was \$69,912,000 for the nine months ended September 30, 2011, compared with \$69,346,000 for the nine months ended September 30, 2010, an increase of approximately \$566,000 or 1%. Salaries increased approximately \$256,000, primarily as a result of the 2.5% reinstatement in April 2011 of the 5% salary reductions implemented in March 2009. Our health care costs increased approximately \$884,000 in the current year, primarily as a result of Health Care Reform. These increases were partially offset by reductions in music license fees and depreciation expense of \$242,000 and \$244,000, respectively.

Operating income for the nine months ended September 30, 2011 was \$18,619,000 compared to \$18,818,000 for the nine months ended September 30, 2010, a decrease of approximately \$199,000, or 1%. The increase was a direct result of the improvement in net operating revenue partially offset by an increase in station operating expense, described above, and a \$334,000 or 6% increase in corporate general and administrative charges. The increase in corporate general and administrative charges was primarily from an increase in IT expenses of approximately \$160,000 and an increase in officers' life insurance expense of \$59,000 that is attributable to a decline in the cash surrender value of the life insurance policies.

We generated net income of approximately \$8,526,000 (\$2.01 per share on a fully diluted basis) during the nine months ended September 30, 2011, compared with \$10,569,000 (\$2.50 per share on a fully diluted basis) for the nine months ended September 30, 2010, a decrease of approximately \$2,043,000 or 19%. In the current year period we had a decrease in operating income of \$199,000, as described above, and decreases in interest expense and income tax expense of \$1,525,000 and \$1,355,000, respectively. The decrease in interest expense was primarily attributable to an average decrease in market interest rates of approximately 0.86%, and a decrease in outstanding debt. The decrease in income tax expense was attributable to operating performance and an increase in non-deductible expenses. Additionally, in the current year period we recognized a \$1,326,000 charge for the write-off of unamortized debt issuance costs in conjunction with our previous credit agreement. See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements. In the prior year period, we had non-recurring income of \$3,561,000 resulting from an agreement to downgrade an FCC license at one of our stations.

Table of Contents***Radio Segment***

For the nine months ended September 30, 2011, net operating revenue of the radio segment was \$81,002,000 compared with \$80,894,000 for the nine months ended September 30, 2010, an increase of \$108,000 or less than 1%. Gross national revenue increased approximately \$1,144,000, in the current year. Gross political revenue and gross local revenue decreased approximately \$672,000 and \$241,000, respectively, for the nine months ended September 30, 2011 as compared to the prior year period. The increase in gross national revenue was primarily the result of increased advertising from the financial services and automotive industries. The decrease in gross political revenue was attributable to political advertising in the prior year as 2010 was an election year. The decrease in gross local revenue was primarily the result of a softening in local advertising.

Station operating expense for the radio segment was \$59,311,000 for the nine months ended September 30, 2011, compared with \$59,184,000 for the nine months ended September 30, 2010, an increase of approximately \$127,000 or less than 1%. Salaries increased approximately \$199,000, primarily as a result of the 2.5% reinstatement in April 2011 of the 5% salary reductions implemented in March 2009. Our health care costs increased approximately \$715,000 as compared to the prior year period, primarily as a result of Health Care Reform. These increases were partially offset by reductions in bad debt expense and ratings service expense of approximately \$184,000 and \$154,000, respectively. Additionally, we had a decrease in depreciation and amortization expense of \$240,000 as compared to the prior year period.

Operating income in the radio segment was relatively unchanged for the nine months ended September 30, 2011 compared with the nine months ended September 30, 2010.

Television Segment

For the nine months ended September 30, 2011, net operating revenue of our television segment was \$13,383,000 compared with \$12,790,000 for the nine months ended September 30, 2010, an increase of \$593,000 or 5%. The increase in net operating revenue was primarily the result of an increase in local advertising in our Joplin, MO market following a tornado that caused significant damage in the market in May 2011, and improvements in advertising spending in general. Our television stations that we own and operate in Joplin did not sustain damage in the tornado.

Station operating expense in the television segment for the nine months ended September 30, 2011 was \$10,601,000, compared with \$10,162,000 for the nine months ended September 30, 2010, an increase of approximately \$439,000 or 4%. The increase in station operating expense was primarily from an increase in sales commission and selling expenses of \$102,000 as a result of increased revenue. Additionally, our health care costs increased approximately \$169,000 in the current year, primarily as a result of Health Care Reform.

Operating income in the television segment for the nine months ended September 30, 2011 was \$2,782,000 compared with \$2,628,000 for the nine months ended September 30, 2010, an increase of approximately \$154,000 or 6%. The increase was a direct result of the improvement in net operating revenue partially offset by an increase in station operating expense, described 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 2011 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 Item 1A.

Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

On June 13, 2011, we entered into a new \$120 million credit facility (the Credit Facility) with a group of banks, to refinance our outstanding debt under the credit agreement in place at March 31, 2011 (the Old Credit Agreement). The Credit Facility consists of a \$60 million term loan (the Term Loan) and a \$60 million revolving loan (the Revolving Credit Facility) and matures on June 13, 2016. An additional \$40 million financing may, in the future, be made available to the Company subject to compliance with terms and conditions of the Credit Facility.

We have pledged substantially all of our assets (excluding our FCC licenses and certain other assets) in support of the Credit Facility and each of our subsidiaries has guaranteed the Credit Facility and has pledged substantially all of their assets (excluding their FCC licenses and certain other assets) in support of the Credit Facility.

We wrote-off unamortized debt issuance costs relating to the Old Credit Agreement of approximately \$1.3 million, pre-tax, due to this refinancing during the quarter ended June 30, 2011.

The proceeds from the Credit Facility were used to refinance our Old Credit Agreement and pay transactional fees. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks. The Credit Facility permits up to \$25 million, annually, in aggregate amount of additional business acquisitions, subject to certain terms and conditions as set forth in the Credit Facility in further detail, and also permits the Company to make up to \$20 million, annually, in aggregate amount of dividends, distributions and stock redemptions.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR plus 1.50% to 2.75% or the base rate plus 0.50% to 1.75%. The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment fees of 0.25% to 0.375% per annum on the unused portion of the Revolving Credit Facility.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at September 30, 2011) which, among other things, require us to maintain specified financial ratios and impose certain limitation on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and

encumbrances.

We had approximately \$44.0 million of unused borrowing capacity under the Revolving Credit Facility at September 30, 2011.

In June 2011, approximately \$1.1 million of secured debt of an affiliate was amended to extend the maturity date to May 2014.

Table of Contents***Sources and Uses of Cash***

During the nine months ended September 30, 2011 and 2010, we had net cash flows from operating activities of \$19,421,000 and \$19,229,000, 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 Facility. 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.

On both October 19, 2011 and November 4, 2011, we made a debt payment of \$1,000,000 on the outstanding balance of our Credit Facility.

Our capital expenditures, exclusive of acquisitions, for the nine months ended September 30, 2011 were approximately \$4,140,000 (\$3,259,000 for the corresponding period in 2010). We anticipate capital expenditures in 2011 to be approximately \$5.5 to \$6.0 million, 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 Facility, 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, 2010.

With the exception of our new Credit Facility disclosed in Note 6 and the new employment agreement with our Chairman, President and CEO disclosed in Note 7, there have been no material changes to such contracts/commitments during the nine months ended September 30, 2011. We anticipate that our contractual cash obligations will be financed through funds generated from operations or additional borrowings under the Credit Facility, or a combination thereof.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There have been no significant changes to our critical accounting policies that are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2010.

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, 2010 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2010 Annual Report on Form 10-K.

Table of Contents**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, 2011, 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

- 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.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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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, 2011

/s/ SAMUEL D. BUSH

Samuel D. Bush

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

Date: November 9, 2011

/s/ CATHERINE A. BOBINSKI

Catherine A. Bobinski

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