

SAGA COMMUNICATIONS INC

Form 10-Q

May 10, 2006

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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 March 31, 2006**

**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

38-3042953

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

73 Kercheval Avenue  
Grosse Pointe Farms, Michigan

48236

(Address of principal executive offices)

(Zip Code)

(313) 886-7070

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No . Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 May 1, 2006 was 18,200,838 and 2,390,808, respectively.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**Saga Communications, Inc.  
Condensed Consolidated Balance Sheets

	<b>March 31, 2006 (Unaudited)</b>	<b>December 31, 2005 (Note)</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	<b>\$ 10,649</b>	\$ 15,168
Accounts receivable, net	<b>21,309</b>	22,998
Prepaid expenses and other current assets	<b>4,366</b>	5,596
Total current assets	<b>36,324</b>	43,762
Property and equipment	<b>138,491</b>	137,208
Less accumulated depreciation	<b>68,870</b>	67,539
Net property and equipment	<b>69,621</b>	69,669
Other assets:		
Broadcast licenses, net	<b>148,925</b>	148,925
Goodwill, net	<b>48,827</b>	48,762
Other intangibles, deferred costs and investments, net	<b>8,364</b>	7,747
Total other assets	<b>206,116</b>	205,434
	<b>\$312,061</b>	\$318,865

*See notes to unaudited condensed consolidated financial statements.*

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Saga Communications, Inc.  
Condensed Consolidated Balance Sheets

	<b>March 31, 2006 (Unaudited)</b>	<b>December 31, 2005 (Note)</b>
	<b>(In thousands)</b>	
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 1,133	\$ 1,245
Payroll and payroll taxes	5,416	7,063
Other	3,754	4,145
Barter transactions	1,798	1,691
Current portion of long-term debt		7,000
 Total current liabilities	 12,101	 21,144
Deferred income taxes	26,574	26,174
Long-term debt	141,911	141,911
Other	3,865	3,812
 <b>Stockholders equity:</b>		
Common stock	213	212
Additional paid-in capital	49,706	48,639
Retained earnings	90,210	88,685
Treasury stock	(10,857)	(11,002)
Unearned compensation on restricted stock	(1,662)	(710)
 Total stockholders equity	 127,610	 125,824
	 <b>\$312,061</b>	 <b>\$318,865</b>

Note: The balance sheet at December 31, 2005 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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(Unaudited)	
	(In thousands, except per share data)	
Net operating revenue	<b>\$31,191</b>	\$31,830
Station operating expenses	<b>24,703</b>	24,698
Corporate general and administrative	<b>1,981</b>	1,778
Operating income	<b>4,507</b>	5,354
Other expenses, net:		
Interest expense	<b>2,277</b>	1,623
Other (income) expense	<b>(355)</b>	67
Income before income tax	<b>2,585</b>	3,664
Income tax provision	<b>1,060</b>	1,499
Net income	<b>\$ 1,525</b>	\$ 2,165
Earnings per share		
Basic	<b>\$ .07</b>	\$ .10
Diluted	<b>\$ .07</b>	\$ .10
Weighted average common shares	<b>20,480</b>	20,631
Weighted average common and common equivalent shares	<b>20,503</b>	20,941

*See notes to unaudited condensed consolidated financial statements.*

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Saga Communications, Inc.  
Condensed Consolidated Statements of Cash Flows

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(Unaudited)	
	(In thousands)	
<b>Cash flows from operating activities:</b>		
Cash provided by operating activities	<b>\$ 5,196</b>	\$ 7,656
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	<b>(1,967)</b>	(4,267)
Proceeds from sale of assets	<b>17</b>	3
Increase in intangibles and other assets	<b>(765)</b>	(543)
Acquisition of stations		(21,233)
Net cash used in investing activities	<b>(2,715)</b>	(26,040)
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt		19,750
Payments on long-term debt	<b>(7,000)</b>	
Purchase of shares held in treasury		(2,818)
Net cash (used in) provided by financing activities	<b>(7,000)</b>	16,932
Net decrease in cash and cash equivalents	<b>(4,519)</b>	(1,452)
Cash and cash equivalents, beginning of period	<b>15,168</b>	9,113
Cash and cash equivalents, end of period	<b>\$10,649</b>	\$ 7,661

*See notes to unaudited condensed consolidated financial statements.*



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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements  
Unaudited

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of March 31, 2006 and the results of operations for the three months ended March 31, 2006 and 2005. Results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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, 2005.

**Income Taxes**

Our effective tax rate is higher than the federal statutory rate as a result of certain non-deductible depreciation and amortization expenses and the inclusion of state taxes in the income tax amount.

**Time Brokerage Agreements**

We have entered into Time Brokerage Agreements ( TBAs ) in certain markets. In a typical TBA, the Federal Communications Commission ( 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. We account for TBA s under SFAS 13, Accounting for Leases and related interpretations. Revenue and expenses related to TBAs are included in the accompanying Condensed Consolidated Statements of Income.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**1. Summary of Significant Accounting Policies (continued)**

**Stock Based Compensation**

On January 1, 2006, we adopted the Revised Statement of Financial Accounting Standard No. 123, Share-Based Payment SFAS 123R that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either an equity instrument of the company (typically stock options) or liabilities that are based on the grant date fair value of the award. The statement eliminates the ability to account for share-based compensation transactions, as we formerly did, using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of income.

We adopted SFAS 123R using the modified prospective transition method which requires the application of the accounting standard as of January 1, 2006. Our consolidated financial statements as of and for the first quarter of 2006 reflect the impact of adopting SFAS 123R. In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Note 7 Stock-based Compensation for further details.

Stock-based compensation expense recognized during the period is based on the fair value of the portion of stock-based payment awards that is ultimately expected to vest using the Black-Scholes option-pricing model. Stock-based compensation expense recognized in the condensed consolidated statement of operations during the first quarter of 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested, as of January 1, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 148 and compensation expense for the stock-based payment awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123R. As stock-based compensation expense recognized in the statement of income for the first quarter of 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information required under SFAS 148 for the periods prior to 2006, we accounted for forfeitures as they occurred.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**2. Recent Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections a Replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle, as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on our financial position, results of operations or cash flows.

**3. Intangible Assets and Goodwill**

Under SFAS No. 142 Accounting for Goodwill and Other Intangible Assets, ( SFAS 142 ) goodwill and intangible assets deemed to have indefinite lives are not amortized and are subject to annual, or more frequent if impairment indicators arise, impairment tests.

We consider FCC broadcast licenses to have indefinite lives. Factors that we considered in evaluating that the radio and television FCC licenses are indefinite-lived intangible assets under SFAS 142 include the following:

The radio and television broadcasting licenses may be renewed indefinitely at little cost.

The radio and television broadcasting licenses are essential to our business, and we intend to renew our licenses indefinitely.

We have never been denied the renewal of a FCC broadcast license.

We do not believe that there will be any compelling challenge to the renewal of our broadcast licenses.

We do not believe that the technology used in broadcasting will be replaced by another technology in the foreseeable future.

Based on the above, we believe cash flows from our radio and television licenses are expected to continue indefinitely.

Separable 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 five to forty years.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**4. Common Stock and Treasury Stock**

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through March 31, 2006:

	<b>Common Stock Issued</b>	
	<b>Class A</b>	<b>Class B</b>
	<b>(shares in thousands)</b>	
Balance, January 1, 2005	18,699	2,360
Exercised options	42	
Issuance of restricted stock	51	9
Balance, December 31, 2005	18,792	2,369
Issuance of restricted stock	91	22
Balance, March 31, 2006	18,883	2,391

We have a Stock Buy-Back Program (the Buy-Back Program) to allow us to purchase up to \$30,000,000 of our Class A Common Stock. From its inception in 1998 through March 31, 2006, we have repurchased 1,473,689 shares of our Class A Common Stock for approximately \$22,600,000.

**5. Total Comprehensive Income and Accumulated Other Comprehensive Income**

	<b>Three Months</b>	
	<b>Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>	
<b>Total Comprehensive Income Consists of:</b>		
Net income	\$ 1,525	\$ 2,165
Accumulated other comprehensive income:		
Change in market value of securities, net of tax		6
Total comprehensive income	\$ 1,525	\$ 2,171

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**6. Acquisitions**

We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. The consolidated statements of income include the operating results of the acquired stations from their respective dates of acquisition. All acquisitions were accounted for as purchases and, accordingly, the total costs were allocated to the acquired assets and assumed liabilities based on their estimated fair values as of the acquisition dates. The excess of the consideration paid over the estimated fair value of net assets acquired have been recorded as goodwill, which is deductible for tax purposes.

***Pending Acquisitions***

On January 21, 2004, we entered into agreements to acquire an FM radio station (WOXL-FM) serving the Asheville, North Carolina market, for approximately \$8,000,000. We are currently providing programming to WOXL-FM under a Sub-Time Brokerage Agreement. This transaction is subject to the approval of the FCC and has been contested. We expect to close on the acquisition when all required approvals are obtained.

On April 12, 2006, we entered into an agreement to acquire one FM radio station (WCTU-FM), soon to be serving Asheville, North Carolina, for approximately \$4,000,000.

***2005 Acquisitions***

On November 22, 2005, we acquired one AM station (WVAX-AM) serving Charlottesville, Virginia market for approximately \$151,000.

Effective June 1, 2005, we acquired two FM and two AM radio stations (WQNY-FM, WYXL-FM, WNYY-AM and WHCU-AM) serving the Ithaca, New York market for approximately \$13,610,000. We financed this transaction through funds generated from operations and additional borrowings of approximately \$11,000,000 under our Credit Agreement and the re-issuance of approximately \$2,602,000 of our Class A common stock.

Effective January 1, 2005, we acquired one AM and two FM radio stations (WINA-AM, WWWV-FM and WQMZ-FM) serving the Charlottesville, Virginia market for approximately \$22,490,000, including approximately \$1,986,000 of our Class A common stock. We financed this transaction through funds generated from operations and additional borrowings of approximately \$19,750,000 under our Credit Agreement.

Effective January 1, 2005, we acquired one AM radio station (WISE-AM) serving the Asheville, North Carolina market for approximately \$2,192,000.

Effective January 1, 2005 we acquired a low power television station (KXTS-LP) serving Victoria, Texas market for approximately \$268,000.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**6. Acquisitions (continued)*****Condensed Consolidated Balance Sheet of 2006 and 2005 Acquisitions***

The following unaudited condensed balance sheets represent the estimated fair value assigned to the related assets and liabilities of the 2005 acquisitions at their respective acquisition dates. We issued Class A common stock of approximately \$1,986,000 in connection with acquisitions during the three months ended March 31, 2005. We had no acquisitions during the three months ended March 31, 2006.

**Saga Communications, Inc.**  
**Condensed Consolidated Balance Sheet of 2006 and 2005 Acquisitions**

	<b>Acquisitions in</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>	
<b>Assets Acquired:</b>		
Current assets	\$	\$ 2,542
Property and equipment		4,783
Other assets:		
Broadcast licenses-Radio segment		18,909
Broadcast licenses-Television segment		157
Goodwill-Radio segment		12,479
Goodwill-Television segment		67
Other intangibles, deferred costs and investments		117
Total other assets		31,729
Total assets acquired		39,054
<b>Liabilities Assumed:</b>		
Current liabilities		2,737
Total liabilities assumed		2,737
Net assets acquired	\$	\$36,317

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**6. Acquisitions (continued)****Pro Forma Results of Operations for Acquisitions and Dispositions (Unaudited)**

The following unaudited pro forma results of our operations for the three months ended March 31, 2006 and 2005 assume the 2005 acquisitions occurred as of January 1, 2005. There were no acquisitions during the three months ended March 31, 2006. The pro forma results give effect to certain adjustments, including depreciation, amortization of intangible assets, increased interest expense on acquisition debt and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations which would actually have occurred had the combinations been in effect on the dates indicated or which may occur in the future.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In thousands, except per share data)	
<b>Consolidated Results of Operations:</b>		
Net operating revenue	\$31,191	\$32,397
Station operating expense	24,703	25,281
Corporate general and administrative	1,981	1,778
Operating income	4,507	5,338
Interest expense	2,277	1,755
Other (income) expense, net	(355)	57
Income taxes	1,060	1,447
Net income	\$ 1,525	\$ 2,079
Basic earnings per share	\$ .07	\$ .10
Diluted earnings per share	\$ .07	\$ .10

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**6. Acquisitions (continued)**

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In thousands)	
<b>Radio Broadcasting Segment</b>		
Net operating revenue	\$27,280	\$28,939
Station operating expense	21,415	21,992
Operating income	\$ 5,865	\$ 6,947

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In thousands)	
<b>Television Broadcasting Segment</b>		
Net operating revenue	\$3,911	\$3,458
Station operating expense	3,288	3,289
Operating income	\$ 623	\$ 169

**Reconciliation of pro forma segment operating income to pro forma consolidated operating income:**

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
<b>Three Months Ended March 31, 2006:</b>	<b>(In thousands)</b>			
Net operating revenue	\$27,280	\$3,911	\$	\$31,191
Station operating expense	21,415	3,288		24,703
Corporate general and administrative			1,981	1,981
Operating income (loss)	\$ 5,865	\$ 623	\$(1,981)	\$ 4,507

	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
<b>Three Months Ended March 31, 2006:</b>	<b>(In thousands)</b>			
Net operating revenue	\$28,939	\$3,458	\$	\$32,397
Station operating expense	21,992	3,289		25,281
Corporate general and administrative			1,778	1,778
Operating income (loss)	\$ 6,947	\$ 169	\$(1,778)	\$ 5,338



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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**7. Stock Based Compensation**

**Employee Stock Purchase Plan**

We have an employee stock purchase plan (ESPP) for all eligible employees. Each quarter, an eligible employee may elect to withhold up to 10 percent of his or her compensation, up to a maximum of \$5,000, to purchase shares of our stock at a price equal to 85% of the fair value of the stock as of the last day of such quarter. The ESPP will terminate on the earlier of the issuance of 1,562,500 shares pursuant to the ESPP or December 31, 2008. Approximately 8,625 and 6,301 shares were purchased under the ESPP during the three months ended March 31, 2006 and 2005, respectively. Our ESPP is deemed non-compensatory under the provisions of FAS 123R.

**2005 Incentive Compensation Plan**

On May 9, 2005, our stockholders approved the 2005 Incentive Compensation Plan (the 2005 Plan ) which replaces 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. The number of shares of Common Stock that may be issued under the 2005 Plan may not exceed 500,000 shares of Class B Common Stock, 1,500,000 shares of Class A Common Stock of which up to 500,000 shares of Class A Common Stock may be issued pursuant to incentive stock options and 500,000 Class A Common Stock issuable upon conversion of Class B Common Stock. Awards denominated in Class A Common Stock may be granted to any employee under the 2005 Plan. However, awards denominated in Class B Common Stock may only be granted to Edward K. Christian, President, Chief Executive Officer, Chairman of the Board of Directors, and the holder of 100% of the outstanding Class B Common Stock of the Corporation. Stock options granted under the 2005 Plan may be for terms not exceeding ten years from the date of grant and may not be exercised at a price which is less than 100% of the fair market value of shares at the date of grant.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**7. Stock Based Compensation (continued)**

**2003 Stock Option Plan**

In 2003, we adopted the 2003 Plan, upon expiration of our 1992 Stock Option Plan (the 1992 Plan ) in December 2002, pursuant to which our key employees, including directors who are employees, were eligible to receive grants of options to purchase our Class A Common Stock or Class B Common Stock. Options granted under the 2003 Plan were either incentive stock options (within the meaning of Section 422A of the Internal Revenue Code of 1986) or non-qualified options. Options for Class A Common Stock could be granted to any employee of the Corporation. Options for Class B Common Stock could only be granted to Edward K. Christian, President, Chief Executive Officer, Chairman of the Board of Directors, and the holder of 100% of the outstanding Class B Common Stock of the Corporation. With the approval of the 2005 Plan, the 2003 Plan was terminated as to future grants, therefore the shares available for future grants under the 2003 Plan are no longer available.

**1997 Non-Employee Director Stock Option Plan**

In 1997, we adopted the 1997 Non-Employee Director Stock Option Plan (the Directors Plan ) pursuant to which our directors who are not our employees are eligible to receive options. Under the terms of the Directors Plan, on the last business day of January of each year during the term of the Directors Plan, in lieu of their directors' retainer for the previous year, each eligible director shall automatically be granted an option to purchase that number of our shares of Class A Common Stock equal to the amount of the retainer divided by the fair market value of our Common Stock on the last trading day of the December immediately preceding the date of grant less \$.01 per share. The option exercise price is \$.01 per share. Options granted under the Directors Plan are non-qualified stock options, shall be immediately vested and become exercisable at the written election of the director. The options expire on the earlier of (i) 10 years from the date of grant or (ii) the March 16<sup>th</sup> following the calendar year in which they first become exercisable. This plan expires on May 12, 2007.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**7. Stock Based Compensation (continued)**

**Impact of the adoption of the SFAS 123R**

We adopted SFAS 123R using the modified prospective transition method beginning January 1, 2006. Accordingly, during the three months ended March 31, 2006, we recorded stock-based compensation expense for awards granted prior to, but not yet vested, as of January 1, 2006, as if the fair value method required for pro forma disclosure under SFAS 123 were in effect for expense recognition purposes, adjusted for estimated forfeitures. For stock-based awards granted after January 1, 2006, we have recognized compensation expense based on the estimated grant date fair value method using the Black-Scholes valuation model. For these awards, we have recognized compensation expense using a straight-line amortization method. As SFAS 123R requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for the three months ended March 31, 2006 has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors as well as trends of actual option forfeitures. The compensation expense recognized in corporate general and administrative expenses of our results of operations for the three months ended March 31, 2006 was approximately \$124,000. The associated future income tax benefit recognized for the three months ended March 31, 2006 was approximately \$51,000.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**7. Stock Based Compensation (continued)****Impact of the adoption of the SFAS 123R (continued)**

The following summarizes the stock option transactions for the 2005, 2003 and 1992 Plans for the three months ended March 31, 2006:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	2,068,950	\$ 13.97	4.9	
Granted	506,138	9.00	10.0	
Exercised				
Forfeited				
Outstanding at March 31, 2006	2,575,088	\$ 12.99	5.7	\$
Exercisable at March 31, 2006	1,853,907	\$ 13.94	4.2	\$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the three month ended March 31, 2006:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2005	268,786	\$ 6.89
Granted	506,138	4.42
Vested	(53,743)	6.89
Non-vested at March 31, 2006	721,181	\$ 5.16

We calculated the fair value of the each option award on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for each respective period:

	2006 Grants	2005 Grants
Weighted average grant date fair value per share	\$ 4.42	\$ 6.89
Expected volatility	37.19%	37.14%
Expected term of options (years)	7.6	7.6
Risk-free interest rate	4.27%	3.96%

Dividend Yield	0%	0%
Annual forfeiture rate	4.73%	4.73%

The estimated expected volatility, expected term of options and estimated annual forfeiture rate was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The following summarizes the restricted stock transactions for the three months ended March 31, 2006:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2005	59,728	\$14.25
Granted	112,471	9.00
Forfeited		
Outstanding at March 31, 2006	172,199	\$10.82
Vested at March 31, 2006	11,936	\$14.25

As of March 31, 2006, we had approximately \$60,000 of total compensation expense related to restricted stock-based compensation arrangements.

The following summarizes the stock option transactions for the Directors Plan for the three months ended March 31, 2006:

	<b>Number of Options</b>	<b>Weighted Average Price per Share</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2005	12,193	\$ 0.008	
Granted	13,242	0.010	
Outstanding and exercisable at March 31, 2006	25,435	\$ 0.009	\$245,723

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**7. Stock Based Compensation (continued)****Pro forma Information for Periods Prior to the Adoption of SFAS 123R**

Prior to the adoption of SFAS 123R, we provided the disclosures required under SFAS No.123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosures. Employee stock-based compensation expense recognized under SFAS 123R was not reflected in our results of operations for the three months ended March 31, 2005 for employee stock option awards as all options were granted with an exercise price equal to the market value of the underlying common stock on the date of grant. Our ESPP was deemed non-compensatory under the provisions of APB No. 25. Forfeitures of awards were recognized as they occurred. Previously reported amounts have not been restated.

The pro forma information for the three months ended March 31, 2005 was as follows (in thousands, except per share amounts):

Net income, as reported	\$ 2,165
Add back: stock based compensation cost, net of tax	16
Less: pro forma stock based compensation cost determined under fair value method, net of tax	(467)
 Pro forma net income	 \$ 1,714
 Pro forma earnings per share:	
Basic	\$ .08
 Diluted	 \$ .08

The fair value of our stock options was estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the three months ended March 31, 2005 and consistent with the requirements of SFAS 123: risk-free interest rate of 3.7%; a dividend yield of 0%; expected volatility of 31.1%; and a weighted average expected life of the options of 7 years, respectively.

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Saga Communications, Inc.  
Notes to Condensed Consolidated Financial Statements (Continued)  
Unaudited

**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 eighty-seven 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>Three Months Ended March 31, 2006:</b>	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
				<b>(in thousands)</b>
Net operating revenue	\$ 27,280	\$ 3,911	\$	\$ 31,191
Station operating expense	21,415	3,288		24,703
Corporate general and administrative			1,981	1,981
Operating income (loss)	\$ 5,865	\$ 623	\$ (1,981)	\$ 4,507
Depreciation and amortization	\$ 1,539	\$ 392	\$ 48	\$ 1,979
Total assets	\$263,299	\$31,312	\$17,450	\$312,061

<b>Three Months Ended March 31, 2005:</b>	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other</b>	<b>Consolidated</b>
				<b>(in thousands)</b>
Net operating revenue	\$ 28,372	\$ 3,458	\$	\$ 31,830
Station operating expense	21,409	3,289		24,698
Corporate general and administrative			1,778	1,778
Operating income (loss)	\$ 6,963	\$ 169	\$ (1,778)	\$ 5,354
Depreciation and amortization	\$ 1,653	\$ 442	\$ 50	\$ 2,145
Total assets	\$255,888	\$32,442	\$13,913	\$302,243

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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, 2005. 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 therefore, reflected only in our discussion of consolidated results.

Our discussion of the results of operations of our operating segments focuses on their operating income because we manage our operating segments primarily on their operating income. 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 eighty-seven 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.

**General**

We are a broadcast company primarily engaged in acquiring, developing and operating radio and television stations. We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. We review acquisition opportunities on an ongoing basis.

For additional information with respect to acquisitions, see **Liquidity and Capital Resources** below.

**Radio Segment**

In our radio segment our 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 only for a few weeks. Most of our revenue is generated from local advertising, which is sold primarily by each radio markets' sales staff. For the three months ended March 31, 2006 and 2005, approximately 86% and 85%, respectively, of our gross radio segment revenue was from local advertising. To generate national advertising sales, we engage an independent advertising sales representative firm that specializes in national sales for each of our broadcast markets.



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Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which includes the first quarter of each year.

Our net operating revenue, and the resulting station operating expenses, and operating income varies from market to market based upon the related 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. Because reaching a large and demographically attractive audience is crucial to a station's financial success, we endeavor to develop strong listener loyalty. 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.

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Our radio stations employ a variety of programming formats. We periodically perform market research, including music evaluations, focus groups and strategic vulnerability studies. 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, depreciation, programming expenses, solicitation of advertising, and promotion expenses.

Historically, our Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets have each represented 15% or more of our consolidated operating income. During the three month periods ended March 31, 2006 and 2005 and the years ended December 31, 2005 and 2004, these markets when combined, represented approximately 80%, 85%, 75% and 73% respectively, of our consolidated operating income. While radio revenues in each of the Columbus, Manchester, Milwaukee and Norfolk markets have remained relatively stable historically, 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. A decrease in the total available radio advertising dollars in the Columbus, Ohio market has resulted in a decline in our revenue and related operating income in our radio stations there. None of our television markets represented more than 15% or more of our consolidated operating income. The following tables describe the percentage of our consolidated operating income represented by each of these markets:

<b>Market:</b>	<b>Percentage of Consolidated Operating Income For the Three Months Ended March 31,</b>		<b>Percentage of Consolidated Operating Income For the Years Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2005</b>	<b>2004</b>
Columbus, Ohio	11%	15%	13%	12%
Manchester, New Hampshire	17%	17%	15%	14%
Milwaukee, Wisconsin	38%	39%	33%	32%
Norfolk, Virginia	14%	14%	14%	15%

We utilize certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP) to assess our financial performance. For example, we evaluate the performance of our markets based on station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization). Station operating income is generally recognized by the broadcasting industry as a measure of performance, is used by analysts who report on the performance of the broadcasting industry and it serves as an indicator of the market value of a group of stations. In addition, we use it to evaluate individual stations, market-level performance, overall operations and as a primary measure for incentive based compensation of executives and other members of management. Station operating income is not necessarily indicative of amounts that may

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be available to us for debt service requirements, other commitments, reinvestment or other discretionary uses. Station operating income is not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for our results of operations presented on a GAAP basis.

During the three month periods ended March 31, 2006 and 2005 and the years ended December 31, 2005 and 2004, the radio stations in our four largest markets when combined, represented approximately 47%, 53%, 48% and 52%, respectively, of our consolidated station operating income. The following tables describe the percentage of our consolidated station operating income represented by each of these markets:

Market:	Percentage of Consolidated Station Operating Income (*) For the Three Months Ended March 31,		Percentage of Consolidated Station Operating Income (*) For the Years Ended December 31,	
	2006	2005	2005	2004
	Columbus, Ohio	7%	10%	9%
Manchester, New Hampshire	9%	10%	9%	10%
Milwaukee, Wisconsin	22%	24%	21%	22%
Norfolk, Virginia	9%	9%	9%	11%

\* Operating income plus corporate general and administrative, depreciation and amortization

**Television Segment**

In our television segment, our 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 certain network affiliation and syndicated programming agreements and, with respect to children's programs, federal regulation. Our television broadcasting segment local market managers only determine the number of advertisements to be broadcast hourly in locally produced programs which are comprised mainly of news programming and the occasional locally produced sports or information show.

Our net operating revenue, and the resulting station operating expenses, and operating income vary from market to market based upon the related market's rank or size which is based upon population, the 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

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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. Because audience ratings are crucial to a station's financial success, we endeavor to develop strong viewer loyalty. When we acquire and/or begin operating a station or group of stations we generally increase programming expenses including local news, sports and weather programming, new syndicated programming, and advertising and promotion expenses to increase our viewership. 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/operated station or group of stations.

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 three months ended March 31, 2006 and 2005, approximately 81% and 80%, respectively, of our gross television 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 includes the first quarter of each year.

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

**Table of Contents****Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005****Results of Operations**

The following tables summarize our results of operations for the three months ended March 31, 2006 and 2005.

**Consolidated Results of Operations**

	Three Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
	2006	2005		
	March 31,			
	(In thousands, except percentages and per share information)			
Net operating revenue	\$31,191	\$31,830	\$(639)	(2.0)%
Station operating expense	24,703	24,698	5	%
Corporate G&A	1,981	1,778	203	11.4%
Operating income	4,507	5,354	(847)	(15.8)%
Interest expense	2,277	1,623	654	40.3%
Other (income) expense	(355)	67	(422)	N/M
Income taxes	1,060	1,499	(439)	(29.3)%
Net income	\$ 1,525	\$ 2,165	\$(640)	(29.6)%
Earnings per share (basic and diluted)	\$ .07	\$ .10	\$(.03)	(30.0)%

**Radio Broadcasting Segment**

	Three Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
	2006	2005		
	March 31,			
	(In thousands, except percentages)			
Net operating revenue	\$27,280	\$28,372	\$(1,092)	(3.9)%
Station operating expense	21,415	21,409	6	%
Operating income	\$ 5,865	\$ 6,963	\$(1,098)	(15.8)%

**Television Broadcasting Segment**

	Three Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
	2006	2005		
	March 31,			
	(In thousands, except percentages)			
Net operating revenue	\$3,911	\$ 3,458	\$ 453	13.1%
Station operating expense	3,288	3,289	(1)	%
Operating income	\$ 623	\$ 169	\$ 454	268.6%

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

<b>Three Months Ended</b>	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>March 31, 2006:</b>				
Net operating revenue	\$27,280	\$3,911	\$	\$31,191
Station operating expense	21,415	3,288		24,703
Corporate general and administrative			1,981	1,981
Operating income (loss)	\$ 5,865	\$ 623	\$(1,981)	\$ 4,507

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

<b>Three Months Ended</b>	<b>Radio</b>	<b>Television</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidated</b>
<b>March 31, 2005:</b>				
Net operating revenue	\$28,372	\$3,458	\$	\$31,830
Station operating expense	21,409	3,289		24,698
Corporate general and administrative			1,778	1,778
Operating income (loss)	\$ 6,963	\$ 169	\$(1,778)	\$ 5,354

***Consolidated***

For the three months ended March 31, 2006, consolidated net operating revenue was \$31,191,000 compared with \$31,830,000 for the three months ended March 31, 2005, a decrease of \$639,000 or 2%. We had a decline of approximately \$1,253,000 in revenue generated by stations that we owned or operated for the comparable period in 2005 ( same station ), offset by an increase in net operating revenue of approximately \$614,000 attributable to stations we did not own and operate for the entire comparable period. The majority of the decrease in same station revenue was primarily attributable to a decrease in local revenue of approximately 4% and a decrease in national revenue of approximately 10%.

Station operating expense was \$24,703,000 for the three months ended March 31, 2006, compared with \$24,698,000 for the three months ended March 31, 2005, an increase of approximately \$5,000. Approximately \$616,000 of the increase was the result of the impact of the operation of radio stations that we did not own or operate for the comparable period in 2005, offset by a decrease in station operating expense of \$611,000 representing a total decrease in station operating expense for radio and television of 3% on a same station basis, which is primarily as a result of a decrease in selling and commission expenses directly attributable to the decrease in revenue.

Operating income for the three months ended March 31, 2006 was \$4,507,000 compared to \$5,354,000 for the three months ended March 31, 2005, a decrease of approximately \$847,000 or 16%. The decrease was directly attributable to the decrease in net operating revenue and an increase in corporate general and administrative charges of approximately \$203,000 or 11% primarily attributable to additional charges to corporate related to an increase in stock based compensation expense of approximately \$184,000.

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We generated net income of approximately \$1,525,000 (\$.07 per share on a fully diluted basis) during the three months ended March 31, 2006, compared with \$2,165,000 (\$.10 per share on a fully diluted basis) for the three months ended March 31, 2005, a decrease of approximately \$640,000 or 30%. The decrease was the result of the \$847,000 decrease in operating income discussed above, a \$654,000 increase in interest expense, offset by a \$439,000 decrease in income tax expense and a decrease of \$422,000 in other expense. The increase in interest expense was attributable to a \$43,000 increase in interest related to additional borrowings with the remaining increase of \$611,000 attributable to rising interest rates. The decrease in income tax expense was directly attributable to operating performance. Other (income) expense relates primarily to a \$500,000 gain on the disposal of assets for slight alteration to one of our Keene, NH FM s signal pattern, offset by a \$129,000 loss relative to one of our Springfield, IL towers being destroyed by a tornado.

***Radio Segment***

For the three months ended March 31, 2006, net operating revenue of the radio segment was \$27,280,000 compared with \$28,372,000 for the three months ended March 31, 2005, a decrease of \$1,092,000 or 4%. During 2006 we had an increase in net operating revenue of approximately \$614,000 attributable to stations we did not own and operate for the entire comparable period. We had a decline of approximately \$1,706,000 in revenue generated by radio stations that we owned or operated for the comparable period in 2005 ( same station ). The majority of the decrease in same station revenue was primarily attributable to same station local revenue decrease of approximately 5% and same station national revenue decrease of approximately 14%, where we had a decline of approximately \$500,000 in net operating revenue in each of our Columbus and Milwaukee markets.

Station operating expense for the radio segment was \$21,415,000 for the three months ended March 31, 2006, compared with \$21,409,000 for the three months ended March 31, 2005, an increase of approximately \$6,000. Approximately \$616,000 of the increase was the result of the impact of the operation of radio stations that we did not own or operate for the comparable period in 2005, offset by a decrease in station operating expense of \$610,000 representing a total decrease in station operating expense for radio and television of 3% on a same station basis, which is primarily as a result of a decrease in selling and commission expenses directly attributed to the decrease in revenue

Operating income in the radio segment for the three months ended March 31, 2006 was \$5,865,000 compared to \$6,963,000 for the three months ended March 31, 2005, a decrease of approximately \$1,098,000 or 16%. The decrease was the result of the decrease in net operating revenue, offset by the small increase in station operating expense.

***Television Segment***

For the three months ended March 31, 2006, net operating revenue of our television segment was \$3,911,000 compared with \$3,458,000 for the three months ended March 31, 2005, an increase of \$453,000 or 13%. The majority of the improvement in net operating revenue was attributable to local revenue increase of approximately 7%, national revenue

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increase of approximately 10% and political revenue increased to \$203,000 compared with \$9,000 for the three months ended March 31, 2005.

Station operating expense in the television segment for the three months ended March 31, 2006 was \$3,288,000, compared with \$3,289,000 for the three months ended March 31, 2005, a decrease of approximately \$1,000.

Operating income in the television segment for the three months ended March 31, 2006 was \$623,000 compared to \$169,000 for the three months ended March 31, 2005, an increase of approximately \$454,000 or 269%. The increase was the result of the increase in net operating revenue and the small decrease in station operating expense.

**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 2006 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 Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward Looking Statements; Risk Factors in our Form 10-K for the year ended December 31, 2005.



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***Liquidity and Capital Resources***

**Debt Arrangements and Debt Service Requirements**

As of March 31, 2006, we had \$141,911,000 of long-term debt outstanding and approximately \$52,900,000 of unused borrowing capacity under our Credit Agreement.

Our Credit Agreement is a \$193,750,000 reducing revolving line of credit maturing on July 29, 2010. 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, capital expenditures, permitted acquisition and related transaction expenses and permitted stock buybacks. On March 31, 2006, the Revolving Commitments (as defined in the Credit Agreement) were permanently reduced by \$6,250,000 of the total Revolving Commitments. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2010. In addition, under the current provisions of our Credit Agreement, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in Credit Agreement) based on leverage ratios.

We are in the process of amending our Credit Agreement to increase the Revolving Commitments, reduce the interest rate margin for LIBOR and Agent bank's base rate and extend our maturity date. We expect the amendment to be finalized during the second quarter 2006.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at March 31, 2006) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

**Sources and Uses of Cash**

During the three months ended March 31, 2006 and 2005, we had net cash flows from operating activities of \$5,196,000 and \$7,656,000, 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.

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The following transactions were either pending at March 31, 2006 or were entered into subsequent to that date, which we expect to finance through funds generated from operations and additional borrowings under our Credit Agreement:

On January 21, 2004, we entered into agreements to acquire one FM radio station (WOXL-FM) serving the Asheville, North Carolina market, for approximately \$8,000,000. We are currently providing programming to WOXL-FM under a Sub-Time Brokerage Agreement. This transaction is subject to the approval of the FCC and has been contested, however, we expect to close on the acquisition when all required approvals have been obtained.

On April 12, 2006 we entered into an agreement to acquire one FM radio station (WCTU-FM), soon to be serving Asheville, North Carolina, for approximately \$4,000,000.

We continue to actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties.

In May 2005, our board of directors authorized an increase to our Stock Buy-Back Program so that we may purchase a total of \$30,000,000 of our Class A Common Stock. From the inception of the Stock Buy-Back program in 1998 through March 31, 2006, we have repurchased 1,473,689 shares of our Class A Common Stock for approximately \$22,600,000. No share were repurchased during the three months ended March 31, 2006.

We anticipate that any future acquisitions of radio and television stations and purchases of Class A Common Stock under the Stock Buy-Back Program will be financed through funds generated from operations, borrowings under the Credit Agreement, additional debt or equity financing, or a combination thereof. However, there can be no assurances that any such financing will be available on acceptable terms, if at all.

Our capital expenditures, exclusive of acquisitions, for the three months ended March 31, 2006 were approximately \$1,967,000 (\$4,267,000 in 2005). We anticipate capital expenditures exclusive of acquisitions in 2006 to be approximately \$9,000,000 to \$9,500,000, which we expect to finance through funds generated from operations or additional borrowings under the Credit Agreement.

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

We have future cash obligations under various types of contracts under the terms of our Credit Agreement, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see Item 7. Managements 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, 2005.

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There have been no material changes to such contracts/commitments during the three months ended March 31, 2006. We anticipate that the above contractual cash obligations will be financed through funds generated from operations or additional borrowings under the Credit Agreement, 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 has been no significant changes to our critical accounting policies that are described in Item 7. Managements 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, 2005.

**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.

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**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, 2005 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2005 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause the material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There were no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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**PART II OTHER INFORMATION**

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

None.

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-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 Rules 13a-14(a) of the Securities Exchange Act of 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: May 09, 2006

/s/ Samuel D. Bush

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

Date: May 09, 2006

/s/ Catherine A. Bobinski

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

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INDEX TO EXHIBITS

Exhibit

Number Description

- |      |   |
|------|---|
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