SAGA COMMUNICATIONS INC
Form 10-Q
August 16, 2010

Table of Contents

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

(Mark One)

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

For the Quarterly Period ended June 30, 2010

or

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

For the transition period from to

Commission file number 1-11588

Saga Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**38-3042953**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
73 Kercheval Avenue Grosse Pointe Farms, Michigan	**48236**
(Address of principal executive offices)	*(Zip Code)*

(313) 886-7070

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 o No o.

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company þ

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

The number of shares of the registrant s Class A Common Stock, $.01 par value, and Class B Common Stock, $.01 par value, outstanding as of August 10, 2010 was 3,660,141 and 598,643, respectively.

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 16,047**	$ 12,899
Short-term investments	**2,005**	
Accounts receivable, net	**19,536**	19,096
Prepaid expenses and other current assets	**1,693**	2,345
Barter transactions	**2,009**	1,681
Deferred income taxes	**831**	873
Total current assets	**42,121**	36,894
Property and equipment	**157,733**	158,011
Less accumulated depreciation	**90,403**	88,795
Net property and equipment	**67,330**	69,216
Other assets:		
Broadcast licenses, net	**90,552**	90,552
Other intangibles, deferred costs and investments, net	**6,402**	5,689
Total other assets	**96,954**	96,241
	$ 206,405	$ 202,351
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**$ 1,498**	$ 1,345
Payroll and payroll taxes	**6,686**	5,494
Other accrued expenses	**3,894**	3,422
Barter transactions	**2,071**	1,802
Current portion of long-term debt	**17,278**	17,078
Total current liabilities	**31,427**	29,141
Deferred income taxes	**4,062**	1,907
Long-term debt	**96,300**	104,000
Other liabilities	**3,061**	3,210
Stockholders equity		
Common stock	**53**	53
Additional paid-in capital	**49,899**	49,371
Retained earnings	**50,076**	43,064

Treasury stock	**(28,473)**	(28,395)
Total stockholders equity	**71,555**	64,093
	$ 206,405	$ 202,351

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

See notes to unaudited condensed consolidated financial statements.

3

Table of Contents

SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(Unaudited) (In thousands, except per share data)			
Net operating revenue	**$ 32,887**	$ 31,637	**$ 60,874**	$ 57,761
Station operating expense	**23,157**	23,295	**45,717**	47,235
Corporate general and administrative	**1,897**	2,158	**3,779**	4,225
Operating income	**7,833**	6,184	**11,378**	6,301
Other expenses, net:				
Interest expense	**1,468**	1,430	**2,987**	2,203
Other (income) expense, net	**185**	(28)	**(3,411)**	(32)
Income before income tax	**6,180**	4,782	**11,802**	4,130
Income tax provision	**2,485**	2,108	**4,790**	1,818
Net income	**$ 3,695**	$ 2,674	**$ 7,012**	$ 2,312
Earnings per share				
Basic	**$ .87**	$ .63	**$ 1.66**	$ .55
Diluted	**$ .87**	$ .63	**$ 1.66**	$ .55
Weighted average common shares	**4,236**	4,226	**4,229**	4,192
Weighted average common and common equivalent shares	**4,237**	4,227	**4,229**	4,193

See notes to unaudited condensed consolidated financial statements.

4

Table of Contents

SAGA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	**$ 12,826**	$ 12,001
Cash flows from investing activities:		
Acquisition of property and equipment	**(2,146)**	(2,574)
Proceeds from license downgrade	**3,561**	
Purchases of short-term investments	**(2005)**	
Other investing activities	**(7)**	302
Net cash used in investing activities	**(597)**	(2,272)
Cash flows from financing activities:		
Payments on long-term debt	**(7,500)**	(2,000)
Payments for debt issuance costs	**(1,503)**	(967)
Purchase of shares held in treasury	**(78)**	(20)
Other financing activities		2
Net cash used in financing activities	**(9,081)**	(2,985)
Net increase in cash and cash equivalents	**3,148**	6,744
Cash and cash equivalents, beginning of period	**12,899**	6,992
Cash and cash equivalents, end of period	**$ 16,047**	$ 13,736

See notes to unaudited condensed consolidated financial statements.

5

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 June 30, 2010 and the results of operations for the three and six months ended June 30, 2010 and 2009. Results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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

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

Earnings Per Share Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Numerator:				
Net income available to common stockholders	$ 3,695	$ 2,674	$ 7,012	$ 2,312
Denominator:				
Denominator for basic earnings per share-weighted average shares	4,236	4,226	4,229	4,192
Effect of dilutive securities:				
Common stock equivalents	1	1		1
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	4,237	4,227	4,229	4,193
Basic earnings per share	$ 0.87	$ .63	$ 1.66	$ .55
Diluted earnings per share	$ 0.87	$ .63	$ 1.66	$ .55

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation was 350,000 for the three and six months ended June 30, 2010 and 390,000 for the three and six months ended June 30, 2009. 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.

Table of Contents

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

Change in Accounting Estimate

In the second quarter of 2008, the Company reviewed the estimated useful lives of its television analog equipment. This review was performed because of the Federal Communications Commission s (FCC) mandatory requirement that all television stations convert from analog to digital spectrum by February 2009. As a result of this review, the Company s depreciation rate of its analog equipment was increased to reflect the estimated period during which these assets would remain in service. This change of estimated useful lives is deemed as a change in accounting estimate and has been accounted for prospectively, effective April 1, 2008. The effect of this change in estimate was to decrease net income approximately $74,000 and $277,000, and decrease earnings per share (basic and diluted) by $0.02 and $0.07, for the three and six months ended June 30, 2009, respectively. The change in estimate had no effect on depreciation expense in 2010 as the analog equipment was fully depreciated as of December 31, 2009.

Fair Value of Financial Instruments

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

Income Taxes

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

Time Brokerage Agreements

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

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

Table of Contents

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. 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 June 30, 2010:

	Common Stock Issued	
	Class A	**Class B**
	(Shares in thousands)	
Balance, January 1, 2009	4,770	600
Exercised options	2	
Conversion of shares	1	(1)
Forfeiture of restricted stock.	(2)	
Balance, December 31, 2009	4,771	599
Conversion of shares	1	(1)
Balance, June 30, 2010	4,772	598

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

5. Stock-Based Compensation

2005 Incentive Compensation Plan

On May 9, 2005, our stockholders approved the 2005 Incentive Compensation Plan (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 $139,000 and $326,000, respectively, and related tax benefits of $56,000 and $132,000, respectively, was recognized for the three and six months ended June 30, 2010. For the three and six months ended June 30, 2009, the Company recognized compensation expense of approximately $216,000 and $418,000, respectively, and related tax benefits of $95,000 and $184,000, respectively. Compensation expense is reported in corporate general and administrative expenses in our results of operations.

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

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

	Number of Options	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	388,469	$	54.56	4.2	$
Granted					
Exercised					
Expired	(40,712)		66.97		
Forfeited	(320)		37.25		
Outstanding at June 30, 2010	347,437	$	53.12	4.2	$
Exercisable at June 30, 2010	308,957	$	55.16	3.9	$

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

	Number of Options	Weighted Average Grant Date Fair Value	
Non-vested at January 1, 2010	80,453	$	19.74
Granted			
Vested	(41,653)		20.88
Forfeited/canceled	(320)		18.81
Non-vested at June 30, 2010	38,480	$	18.51

The following summarizes the restricted stock transactions for the six months ended June 30, 2010:

	Shares	Weighted Average Grant Date Fair Value	
Outstanding at January 1, 2010	37,368	$	31.45
Granted			
Vested	(14,097)		35.92
Forfeited	(212)		28.47

Non-vested and outstanding at June 30, 2010	23,059	$ 28.74

For the three and six months ended June 30, 2010 and the three and six months ended June 30, 2009, we had approximately $91,000, $202,000, $126,000 and $252,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. The associated tax benefit recognized for the three and six months ended June 30, 2010 and the three and six months ended June 30, 2009 was approximately $37,000, $82,000, $55,000 and $111,000, respectively.

Table of Contents

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

6. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Credit Agreement:		
Reducing revolver facility	$ 112,500	$ 120,000
Secured debt of affiliate	1,078	1,078
	113,578	121,078
Amounts payable within one year	17,278	17,078
	$ 96,300	$ 104,000

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

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

The Revolving Commitments will be be permanently reduced by $2.5 million at the end of each calendar quarter. In addition, each calendar quarter the Revolving Commitments shall be further reduced by 75% of Excess Cash Flow (as defined in the Credit Agreement), which we estimate to be $6.2 million for the twelve month period ending June 30, 2011, and is included in the current portion of long-term debt at June 30, 2010. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. Interest on the Credit Agreement is at a variable rate, and as such the debt obligation outstanding approximates fair value.

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

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

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

7. Segment Information

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

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

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended June 30, 2010:				
Net operating revenue	$ 28,661	$ 4,226	$	$ 32,887
Station operating expense	19,827	3,330		23,157
Corporate general and administrative			1,897	1,897
Operating income (loss)	$ 8,834	$ 896	$ (1,897)	$ 7,833
Depreciation and amortization	$ 1,444	$ 409	$ 54	$ 1,907

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended June 30, 2009:				
Net operating revenue	$ 27,530	$ 4,107	$	$ 31,637
Station operating expense	19,694	3,601		23,295
Corporate general and administrative			2,158	2,158
Operating income (loss)	$ 7,836	$ 506	$ (2,158)	$ 6,184
Depreciation and amortization	$ 1,516	$ 664	$ 48	$ 2,228