

SAGA COMMUNICATIONS INC

Form 10-Q

May 09, 2012

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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, 2012

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)

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

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

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

**48236**  
(Zip Code)

**(313) 886-7070**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

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

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

The number of shares of the registrant's Class A Common Stock, \$.01 par value, and Class B Common Stock, \$.01 par value, outstanding as of May 4, 2012 was 3,652,405 and 597,504, respectively.

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

|  | March<br>31,<br>2012<br>(Unaudited) | December<br>31,<br>2011<br>(Note) |
|--|-------------------------------------|-----------------------------------|
|  | (In thousands)                      |                                   |
| <b>Assets</b>  |                                     |                                   |
| Current assets:  |                                     |                                   |
| Cash and cash equivalents                              | \$ 6,695                            | \$ 6,991                          |
| Accounts receivable, net                               | 16,969                              | 19,415                            |
| Prepaid expenses and other current assets              | 1,659                               | 1,987                             |
| Barter transactions                                    | 1,620                               | 1,398                             |
| Deferred income taxes                                  | 1,177                               | 1,169                             |
| Total current assets                                   | 28,120                              | 30,960                            |
| Property and equipment                                 | 161,513                             | 160,430                           |
| Less accumulated depreciation                          | 98,938                              | 97,244                            |
| Net property and equipment                             | 62,575                              | 63,186                            |
| Other assets:  |                                     |                                   |
| Broadcast licenses, net                                | 90,584                              | 90,584                            |
| Other intangibles, deferred costs and investments, net | 5,634                               | 5,604                             |
| Total other assets                                     | 96,218                              | 96,188                            |
|  | \$ 186,913                          | \$ 190,334                        |
| <b>Liabilities and stockholders equity</b>             |                                     |                                   |
| Current liabilities:                                   |                                     |                                   |
| Accounts payable                                       | \$ 1,495                            | \$ 1,808                          |
| Payroll and payroll taxes                              | 6,166                               | 5,730                             |
| Other accrued expenses                                 | 3,316                               | 2,502                             |
| Barter transactions                                    | 1,710                               | 1,598                             |
| Current portion of long-term debt                      |                                     | 3,000                             |
| Total current liabilities                              | 12,687                              | 14,638                            |
| Deferred income taxes                                  | 14,001                              | 13,383                            |
| Long-term debt   | 61,328                              | 66,078                            |
| Other liabilities                                      | 3,240                               | 3,260                             |
| Total liabilities                                      | 91,256                              | 97,359                            |
| <b>Commitments and contingencies</b>                   |                                     |                                   |
| <b>Stockholders equity:</b>                            |                                     |                                   |
| Common stock   | 53                                  | 53                                |
| Additional paid-in capital                             | 50,738                              | 50,681                            |
| Retained earnings                                      | 73,536                              | 70,831                            |

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|                            |                   |            |
|----------------------------|-------------------|------------|
| Treasury stock             | (28,670)          | (28,590)   |
| Total stockholders' equity | 95,657            | 92,975     |
|                            | <b>\$ 186,913</b> | \$ 190,334 |

Note: The balance sheet at December 31, 2011 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.

**Table of Contents****SAGA COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

|  | <b>Three Months Ended</b>                    |                  |
|--|--|------------------|
|  | <b>March 31,</b>                             |                  |
|  | <b>2012</b>                                  | <b>2011</b>      |
|  | <b>(Unaudited)</b>                           |                  |
|  | <b>(In thousands, except per share data)</b> |                  |
| Net operating revenue                                | <b>\$ 29,934</b>                             | <b>\$ 28,708</b> |
| Station operating expenses                           | <b>22,968</b>                                | 22,736           |
| Corporate general and administrative                 | <b>1,949</b>                                 | 1,940            |
| Operating income                                     | <b>5,017</b>                                 | 4,032            |
| Other expenses, net:                                 |  |                  |
| Interest expense                                     | <b>528</b>                                   | 1,157            |
| Other (income) expense, net                          | <b>(2)</b>                                   | 68               |
| Income before income tax                             | <b>4,491</b>                                 | 2,807            |
| Income tax provision                                 | <b>1,786</b>                                 | 1,145            |
| Net income   | <b>\$ 2,705</b>                              | <b>\$ 1,662</b>  |
| Earnings per share                                   |  |                  |
| Basic  | <b>\$ 0.64</b>                               | <b>\$ 0.39</b>   |
| Diluted  | <b>\$ 0.64</b>                               | <b>\$ 0.39</b>   |
| Weighted average common shares                       | <b>4,244</b>                                 | 4,237            |
| Weighted average common and common equivalent shares | <b>4,259</b>                                 | 4,243            |

See notes to unaudited condensed consolidated financial statements.

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

|  | <b>Three Months Ended<br/>March 31,<br/>2012      2011<br/>(Unaudited)<br/>(In thousands)</b> |           |
|--|---|-----------|
| <b>Cash flows from operating activities:</b>         |   |           |
| Cash provided by operating activities                | <b>\$ 8,798</b>   | \$ 5,885  |
| <b>Cash flows from investing activities:</b>         |   |           |
| Acquisition of property and equipment                | <b>(1,189)</b>  | (1,145)   |
| Other investing activities                           | <b>(75)</b>   | (66)      |
| Net cash used in investing activities                | <b>(1,264)</b>  | (1,211)   |
| <b>Cash flows from financing activities:</b>         |   |           |
| Payments on long-term debt                           | <b>(7,750)</b>  | (4,000)   |
| Purchase of shares held in treasury                  | <b>(80)</b>   | (117)     |
| Net cash used in financing activities                | <b>(7,830)</b>  | (4,117)   |
| Net (decrease) increase in cash and cash equivalents | <b>(296)</b>  | 557       |
| Cash and cash equivalents, beginning of period       | <b>6,991</b>  | 12,197    |
| Cash and cash equivalents, end of period             | <b>\$ 6,695</b>   | \$ 12,754 |

See notes to unaudited condensed consolidated financial statements.

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

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of March 31, 2012 and the results of operations for the three months ended March 31, 2012 and 2011. Results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2011.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2012, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

***Earnings Per Share Information***

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

|   | <b>Three Months Ended</b>                    |             |
|---|--|-------------|
|   | <b>March 31,</b>                             |             |
|   | <b>2012</b>                                  | <b>2011</b> |
|   | <b>(In thousands, except per share data)</b> |             |
| <b>Numerator:</b>   |  |             |
| Net income available to common stockholders   | \$ 2,705                                     | \$ 1,662    |
| <b>Denominator:</b>   |  |             |
| Denominator for basic earnings per share weighted average shares                                    | 4,244  | 4,237       |
| <b>Effect of dilutive securities:</b>   |  |             |
| Common stock equivalents  | 15   | 6           |
| Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions | 4,259  | 4,243       |
| Basic earnings per share  | \$ 0.64                                      | \$ 0.39     |
| Diluted earnings per share  | \$ 0.64                                      | \$ 0.39     |

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 94,000 and 294,000 for the three months ended March 31, 2012 and 2011, respectively. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.





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**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**

**STATEMENTS (Continued)**

***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 ( TBA s ) 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 May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU change the wording used to describe many of the requirements in U.S. generally accepted accounting principles ( GAAP ) for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this ASU to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This update was adopted on January 1, 2012 and did not have a material impact on our consolidated financial statements.

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

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

**4. Common Stock and Treasury Stock**

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through March 31, 2012:

|                            | <b>Common Stock Issued</b>   |                |
|----------------------------|------------------------------|----------------|
|                            | <b>Class A</b>               | <b>Class B</b> |
|                            | <b>(Shares in thousands)</b> |                |
| Balance, January 1, 2011   | 4,770                        | 598            |
| Conversion of shares       | 1                            | (1)            |
| Balance, December 31, 2011 | 4,771                        | 597            |
| Conversion of shares       |                              |                |
| Balance, March 31, 2012    | 4,771                        | 597            |

We have a Stock Buy-Back Program to allow us to purchase up to \$60 million of our Class A Common Stock. From its inception in 1998 through March 31, 2012, we have repurchased 1,393,779 shares of our Class A Common Stock for approximately \$45,756,000.

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

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

***Stock-Based Compensation***

For the three months ended March 31, 2012 and 2011, we had approximately \$22,000 and \$95,000, respectively, of total compensation expense related to stock options. This expense is included in corporate general and administrative expenses in our results of operations. The associated future income tax benefit recognized for the three months ended March 31, 2012 and 2011 was approximately \$9,000 and \$39,000, respectively.



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**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**