SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)
[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period for __________ 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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 x No___.

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [ ]

Aggregate market value of the Class A Common Stock and the Class B Common Stock (assuming conversion thereof into Class A Common Stock) held by nonaffiliates of the registrant, computed on the basis of $19.875 per share (the closing price of the Class A Common Stock on March 16, 1998 on the American Stock Exchange): $176,543,504.

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 March 16, 1998 was 8,947,256 and 1,208,510, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 1998 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission on or before April 30, 1998) is incorporated by reference in Part III hereof.

PART I

ITEM 1. BUSINESS

RECENT DEVELOPMENTS

The Company acquired an FM radio station (KAZR-FM) serving the Des Moines, Iowa market on March 14, 1997. The purchase price was approximately $2,700,000. The Company began operating the radio station under the terms of a local market agreement on August 1, 1996, which remained in effect until such closing.

The Company acquired an FM radio station (KLTI-FM) serving the Des Moines, Iowa market on April 17, 1997. The purchase price was approximately $3,200,000. The Company began operating the radio station under the terms of a local market agreement on January 1, 1997, which remained in effect until such closing.

The Company acquired two AM and two FM radio stations (WTAX-AM, WDBR-FM, WVAX-AM, and WYXY-FM) serving the Springfield, Illinois market on May 5, 1997. The purchase price was approximately $6,000,000. The Company began operating the radio stations under the terms of a local market agreement on July 1, 1996, which remained in effect until such closing.

The Company acquired two FM radio stations (WFMR-FM and WPNT-FM) serving the Milwaukee, Wisconsin market on May 9, 1997. The purchase price was approximately $5,000,000.

The Company acquired an FM radio station (WQLL-FM) serving the Manchester, New Hampshire market on November 18, 1997. The purchase price was approximately $3,400,000. The Company began operating the radio station under the terms of a local market agreement on July 1, 1997, which remained in effect until such closing.

The Company acquired the assets of a regional and state news and sports information network (The Illinois Radio Network) serving more than 45 radio stations throughout the state of Illinois, on November 25, 1997. The purchase price was approximately $1,750,000.

On January 14, 1998 the Company signed a letter of intent to purchase a regional and state news and sports information network (The Michigan Radio Network) serving more than 55 radio stations throughout the state of Michigan with an acquisition cost of up to $1,535,000, subject to certain adjustments.

For additional information with respect to these acquisitions, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

BUSINESS

The Company is a broadcast company whose business is primarily devoted to acquiring, developing and operating radio and television stations. The Company currently owns and operates one television station, one state radio network, and twenty-four FM and thirteen AM radio stations serving twelve markets primarily in the Midwest and along the Eastern Seaboard, including Columbus, Ohio; Norfolk, Virginia; and Milwaukee, Wisconsin.

The Company's television station KOAM-TV, serving the Joplin, Missouri/Pittsburg, Kansas market, which ranked as market 146 by number of television households, is one of four television stations in the market. The station is a CBS affiliate and the number one rated television station, by number of viewers, in the market. (All of the above information was derived from Investing in Television Market Report 1997, based on A.C. Nielson ratings and data.)

The following table sets forth certain information about the Company's current radio stations and their markets:

STATION	MARKET(a)	1997 MARKET RANKING BY RADIO REVENUE(b)	STATION FORMAT	TARGET DEMOGRAPHICS RANKING (BY LISTENERS)(c)	TARGET DEMOGRAPHICS
FM:					
WSNY	Columbus, OH	28	Adult Contemporary	N/S	Women 25-54
WKLH	Milwaukee, WI	31	Classic Hits	1	Men 25-54
WLZR	Milwaukee, WI	31	Album Oriented Rock	1	Men 18-34
WPNT	Milwaukee, WI	31	Modern Adult Contemporary	4	Women 25-34
WFMR	Milwaukee, WI	31	Classical	7	Adults 45+
WNOR	Norfolk, VA	39	Album Oriented Rock	2(d)	Men 18-34
WAFX	Norfolk, VA	39	Classic Hits	3	Men 25-49
KSTZ	Des Moines, IA	67	Hot Adult Contemporary	1	Women 18-34
KIOA	Des Moines, IA	67	Oldies	2	Adults 35-54
KAZR	Des Moines, IA	67	Album Oriented Rock	1	Men 18-34
KLTI	Des Moines, IA	67	Soft Adult Contemporary	5(e)	Women 35-54
WMGX	Portland, ME	82	Hot Adult Contemporary	1	Women 25-54
WYNZ	Portland, ME	82	Oldies	5	Adults 35-54
WPOR	Portland, ME	82	Country	1(d,e)	Adults 35+
WAQY	Springfield, MA	85	Album Oriented Rock	1(d)	Men 18-49
WYMG	Springfield, IL	139	Classic Rock	2	Men 18-49
WQQL	Springfield, IL	139	Oldies	6	Adults 25-54
WDBR	Springfield, IL	139	Contemporary Hits	1	Women 18-34
WYXY	Springfield, IL	139	Country	6	Adults 25-49
WZID	Manchester, NH	140	Adult Contemporary	1	Adults 25-54
WQLL	Manchester, NH	140	Oldies	4	Adults 25-54
WLRW	Champaign, IL	165	Hot Adult Contemporary	1(e)	Women 18-49
WIXY	Champaign, IL	165	Country	1	Adults 25-54
WNAX	Sioux City IA	232	Oldies	2	Men 35-54
AM:					
WVKO	Columbus, OH	28	Gospel	N/S	Adults 35+
WJYI	Milwaukee, WI	31	Contemporary Christian	N/R	Adults 18+
WNOR	Norfolk, VA	39	Album Oriented Rock	2(d)	Men 18-34
KRNT	Des Moines, IA	67	Nostalgia/Sports	5	Adults 35+
KXTK	Des Moines, IA	67	Talk/Sports	14	Adults 35+
WGAN	Portland, ME	82	News/Talk	1(e)	Adults 35+
WZAN	Portland, ME	82	News/Talk	7(e)	Men 35-54
WPOR	Portland, ME	82	Country	1(d)	Adults 35+
WAQY	Springfield, MA	85	Album Oriented Rock	1(d)	Men 18-49
WTAX	Springfield, IL	139	News/Talk	3	Adults 35+
WVAX	Springfield, IL	139	News/Talk	N/R	Adults 35+
WFEA	Manchester, NH	140	Nostalgia/Talk	3	Adults 35+
WNAX	Yankton, SD	N/A	Full Service/Country	1	Adults 35+

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The following refers to the table on the previous page about the Company's current radio stations and their markets:

(a) Actual city of license may differ from metro market actually served.

(b) Derived from Investing in Radio 1997 Market Report.

(c) Information derived from most recent available Arbitron Radio Market Report except for Columbus, for which information was derived from Investing in Radio 1997 Market Report.

(d) AM and FM stations are simulcast. Accordingly, ranking information pertains to the combined stations.

(e) Tied for position.

N/A Information currently not available.

N/R Station does not appear in Arbitron Radio Market Report.

N/S Non Subscriber - Station does not currently subscribe to Arbitron Radio Market Report.

COMPANY STRATEGY

The Company's strategy is to operate top billing radio and television stations in mid-sized markets. The Company prefers to operate in mid-sized markets, which it defines as markets ranked (by market revenues) from 20 to 200 out of the markets summarized by Investing in Radio Market Report and Investing in Television Market Report. The Company owns and/or operates at least one of the top four billing stations in each of its radio markets for which independent data exists. Twenty three of the 24 FM stations and 12 of the 13 AM stations owned and/or operated by the Company subscribe to independent listener rating services.

Based on the most recent information available, 11 of the 24 FM radio stations and 4 of the 13 AM radio stations owned and/or operated by the Company were ranked number one (by number of listeners), and its television station was ranked number one (by number of viewers), in their target demographic markets. Programming and marketing are key components in the Company's strategy to achieve top ratings in both its radio and television operations. In many of the Company's markets, the three or four most highly rated stations (radio and/or television) receive a disproportionately high share of the market's advertising revenues. As a result, a station's revenue is dependent upon its ability to maximize its number of listeners/viewers within an advertiser's given demographic parameters. In certain cases it is the practice of the Company to use attributes other than specific market listener data for sales activities. In those markets where sufficient alternative data is available, the Company does not subscribe to an independent listener rating service.

The Company's radio stations employ a variety of programming formats, including but not limited to Classic Hits, Adult Contemporary, Album Oriented Rock, and Country. The Company regularly performs extensive market research, including music evaluations, focus groups and strategic vulnerability studies. The Company's stations also employ audience promotions to further develop and secure a loyal following.

The Company's television station is a CBS affiliate. In addition to securing network programming, the Company also carefully selects available syndicated programming to maximize viewership. The Company also develops local programming, including a strong local news franchise.

In operating its stations, the Company concentrates on the development of strong decentralized local management, which is responsible for the day-to-day operations of the station and is compensated based on the station's financial performance, as well as other performance factors that are deemed to effect the long-term ability of the stations to achieve financial performance objectives. Corporate management is responsible for long-range planning, establishing policies and procedures, resource allocation and monitoring the activities of the stations.

The Company continues to actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. With passage of the Telecommunications Act of 1996 (the "Telecommunications Act") (see "Federal Regulation of Radio and Television Broadcasting"), a company is now able to own as many as 8 radio stations in a single market. Another significant provision of the Telecommunications Act was the lifting of the limitations on the number of radio stations one organization can own in total. The Company seeks to acquire reasonably priced broadcast properties with significant growth potential that are located in markets with well-established and relatively stable economies. The Company often focuses on local economies supported by a strong presence of state or federal government or one or more major universities. Future acquisitions will be subject to the availability of financing and compliance with the Communications Act of 1934 (the "Communications Act") and Federal Communications Commission ("FCC") rules. Although the Company reviews acquisition opportunities on an ongoing basis, it has no other present understandings, agreements or arrangements to acquire or sell any radio or television stations, other than those discussed herein.

ADVERTISING SALES

Virtually all of the Company's revenue is generated from the sale of advertising for broadcast on its stations. Depending on the format of a particular radio station, there are a predetermined number of advertisements broadcast each hour. In the case of the Company's television station, the number of advertisements broadcast may be limited by certain network affiliation and syndication agreements and, with respect to programs designed for children, federal regulation. The Company determines the number of advertisements broadcast hourly that can maximize a station's available revenue dollars without jeopardizing listening/viewing levels. 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 the Company's 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.

Advertising rates charged by radio and television stations are generally based primarily on a station's ability to attract audiences in the demographic groups targeted by advertisers (as measured by rating service surveys quantifying the number of listeners/viewers tuned to the station at various times); the number of stations in the market competing for the same demographic group; the supply of and demand for radio advertising time; and other qualitative factors, including rates charged by competing radio stations within a given market. Radio rates are generally highest during morning and afternoon drive-time hours, while television advertising rates are generally higher during prime time evening viewing periods. Most advertising contracts are short-term, generally running for only a few weeks, providing broadcasters the ability to modify advertising rates as dictated by such variables as changes in station ownership within a market, changes in listener/viewer ratings and changes in the business climate within a particular market, any of which may have a significant impact on the available advertising time on a particular station.

Approximately 81% of the Company's revenue in fiscal 1997 was generated from the sale of local advertising. Additional revenue is generated from the sale of national advertising, network compensation payments, barter and other miscellaneous transactions. In all its markets, the Company attempts to maintain a local sales force which is generally larger than that of its competitors. In its sales efforts, the Company's principal goal is to develop long-standing customer relationships through frequent direct contacts, which the Company believes represents a competitive advantage. The Company also typically provides incentive to its sales staff to seek out new opportunities resulting in the establishment of new client relationships, as well as new sources of revenue, not directly associated with the sale of broadcast time.

Each of the Company's stations also engage national independent sales representatives to assist it in obtaining national advertising revenues. These representatives obtain advertising through national advertising agencies and receive a commission from the Company based on the Company's net revenue from the advertising obtained. Total gross revenue resulting from national advertising in fiscal 1997 was approximately $13,791,000 or 19%.

COMPETITION

Although radio and television broadcasting are highly competitive businesses, such competition is subject to the inherent limitations implied by the finite number of commercial broadcasting licenses available in each market (see "Federal Regulation of Radio and Television Broadcasting"). The Company's stations compete for listeners/viewers and advertising revenues directly with other radio and/or television stations, as well as other media, within their markets. The Company's radio and television stations compete for listeners/viewers primarily on the basis of program content and by employing on-air talent which appeals to a particular demographic group. By building a strong listener/viewer base comprised of a specific demographic group in each of its markets, the Company is able to attract advertisers seeking to reach these listeners/viewers.

Other media, including broadcast television and/or radio (as applicable), cable television, newspapers, magazines, direct mail, coupons and billboard advertising, also compete with the Company's stations for advertising revenues.

The radio and television broadcasting industries are also subject to competition from new media technologies that may be developed or introduced, such as the delivery of audio programming by cable television systems or direct reception from satellites. Although the Company recognizes that technological advances within the broadcast industry can be significant, it is not aware of any such advances or developments that it has not already implemented that would have an effect on its competitive position within its markets. The Company cannot predict the effect, if any, that any such new technologies may have on the broadcasting industry taken as a whole.

EMPLOYEES

As of December 31, 1997, the Company had approximately 520 full-time employees and 227 part-time employees, none of whom are represented by unions. The Company believes that its relations with its employees are good.

The Company employs several high-profile personalities with large loyal audiences in their respective markets. The Company has entered into employment and non-competition agreements with its President and with most of its high-profile on-air personalities, as well as non-competition agreements with its commissioned sales representatives.

FEDERAL REGULATION OF RADIO AND TELEVISION BROADCASTING

INTRODUCTION. The ownership, operation and sale of radio and television stations, including those licensed to the Company, are subject to the jurisdiction of the FCC, which acts under authority granted by the Communications Act. Among other things, the FCC assigns frequency bands for broadcasting; determines the particular frequencies, locations and operating power of stations; issues, renews, revokes and modifies station licenses; determines whether to approve changes in ownership or control of station licenses; regulates equipment used by stations; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules or the Communications Act.

The following is a brief summary of certain provisions of the Communications Act and of specific FCC regulations and policies. Reference should be made to the Communications Act, FCC rules and the public notices and rulings of the FCC for further information concerning the nature and extent of federal regulation of broadcast stations.

LICENSE RENEWAL. Radio and television broadcasting licenses are granted for maximum terms of eight years, and are subject to renewal upon application to the FCC. On April 12,1996, the FCC revised its rules to conform to new section 309(k) of the Communications Act which governs the license renewal process of the Communications Act. Comparative hearings between incumbent licensees and mutually-exclusive applicants for new stations were eliminated with respect to renewal applications filed after May 1, 1995. Under the new "two-step" renewal process, the FCC must grant a renewal application if it finds that during the preceding term the licensee has served the public interest, convenience and necessity, and there have been no serious violations of the Communications Act or the FCC's rules which, taken together, would constitute a pattern of abuse. If a renewal applicant fails to meet these standards, the FCC may either deny its application or grant the application on such terms and conditions as are appropriate, including renewal for less than the full 8-year term. In making the determination of whether to renew the license, the FCC may not consider whether the public interest would be served by the grant of a license to a person other than the renewal applicant. If the FCC, after notice and opportunity for a hearing, finds that the licensee has failed to meet the requirements for renewal and no mitigating factors justify the imposition of lesser sanctions, the FCC may issue an order denying the renewal application, and only thereafter may the FCC accept applications for a construction permit specifying the broadcasting facilities of the former licensee. The Communications Act makes the standard for filing petitions to deny renewal applications conform to the statutory renewal standards. Thus, petitions may be filed to deny the renewal applications of any of the Company's stations, but any such petitions must raise issues that would cause the FCC to deny a renewal application under the standards adopted in the new "two-step" renewal process. Under the Communications Act, if a broadcast station fails to transmit signals for any consecutive 12-month period, the FCC license expires at the end of that period.

The Company owns television station KOAM-TV, channel 7, serving the Joplin, Missouri/Pittsburg, Kansas market, operating at a power of 316,000 watts (visual), and 61,600 watts (aural). The expiration date of the stations FCC authorization is June 1, 1998. An application for renewal of license is pending at the FCC.

The following table sets forth the market and broadcast power of each of the Company's radio stations and the date on which each such station's FCC license expires:

Station	Market(1)	Power (Watts)(2)	Expiration Date of FCC Authorization
FM:			
WSNY	Columbus, OH	50,000	October 1, 2004
WKLH	Milwaukee, WI	50,000	December 1, 2004
WLZR	Milwaukee, WI	50,000	December 1, 2004
WFMR	Milwaukee, WI	6,000	December 1, 2004
WPNT	Milwaukee, WI	6,000	December 1, 2004
WNOR	Norfolk, VA	50,000	October 1, 2003(3)
WAFX	Norfolk, VA	100,000	October 1, 2003(3)
KSTZ	Des Moines, IA	100,000	February 1, 2005
KIOA	Des Moines, IA	100,000	February 1, 2005
KAZR	Des Moines, IA	100,000	February 1, 2005
KLTI	Des Moines, IA	100,000	February 1, 2005
WAQY	Springfield, MA	50,000	April 1, 1998(4)
WMGX	Portland, ME	50,000	April 1, 1998(4)
WYNZ	Portland, ME	25,000	April 1, 1998(4)
WPOR	Portland, ME	50,000	April 1, 1998(4)
WYMG	Springfield, IL	50,000	December 1, 2004
WQQL	Springfield, IL	50,000	December 1, 2004
WDBR	Springfield, IL	50,000	December 1, 2004(3)
WYXY	Lincoln, IL	25,000	December 1, 2004(3)
WZID	Manchester, NH	50,000	April 1, 1998(4)
WQLL	Manchester, NH	6,000	April 1, 1998(4)
WLRW	Champaign, IL	50,000	December 1, 2004
WIXY	Champaign, IL	25,000	December 1, 2004
WNAX	Yankton, SD	100,000	April 1, 2005
AM:			
WVKO	Columbus, OH	1,000	October 1, 2004
WJYI	Milwaukee, WI	1,000	December 1, 2004
WNOR	Norfolk, VA	1,000	October 1, 2003(3)
KRNT	Des Moines, IA	5,000	February 1, 2005
KXTK	Des Moines, IA	10,000	February 1, 2005
WAQY	Springfield, MA	2,500(5)	April 1, 1998(4)
WGAN	Portland, ME	5,000	April 1, 1998(4)
WZAN	Portland, ME	5,000	April 1, 1998(4)
WPOR	Portland, ME	1,000	April 1, 1998(4)
WTAX	Springfield, IL	1,000	December 1, 2004(3)
WVAX	Lincoln, IL	1,000(5)	December 1, 2004(3)
WFEA	Manchester, NH	5,000	April 1, 1998(4)
WNAX	Yankton, SD	5,000	April 1, 2005

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The following information pertains to the table on the previous page that sets forth the market and broadcast power of each of the Company's radio stations and the date on which each such station's FCC license expires:

(1) Some stations are licensed to a different community located within the market that they serve.

(2) Some stations are licensed to operate with a combination of effective radiated power and antenna height which may be different from, but provide equivalent coverage to, the power shown. WVKO(AM) and KXTK(AM) operate with lower power at night than the power shown.

(3) License renewed subject to EEO reporting conditions. The Company has sought reconsideration of the FCC's action.

(4) Timely-filed application for renewal of license of this station is pending before the FCC, which extends the licensee's authority to operate the station.

(5) Operates daytime only or with greatly reduced power at night.

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OWNERSHIP MATTERS. The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast licensee without the prior approval of the FCC. In determining whether to grant or renew a broadcast license, the FCC considers a number of factors pertaining to the licensee, including compliance with the Communications Act's limitations on alien ownership; compliance with various rules limiting common ownership of broadcast, cable and newspaper properties; and the "character" and other qualifications of the licensee and those persons holding "attributable or cognizable" interests therein.

Under the Communications Act, broadcast licenses may not be granted to any corporation having more than one-fifth of its issued and outstanding capital stock owned or voted by aliens (including non-U.S. corporations), foreign governments or their representatives (collectively, "Aliens"). The Communications Act also prohibits a corporation, without FCC waiver, from holding a broadcast license if that corporation is controlled, directly or indirectly, by another corporation in which more than one-fourth of the issued and outstanding capital stock is owned or voted by Aliens. The FCC has issued interpretations of existing law under which these restrictions in modified form apply to other forms of business organizations, including partnerships. As a result of these statutory requirements and the FCC's rulings thereunder, the Company, which serves as a holding company for its various radio station subsidiaries, cannot have more than 25% of its stock owned or voted by Aliens.

The Communications Act and FCC rules also generally prohibit or restrict the common ownership, operation or control of a radio broadcast station and a television broadcast station serving the same geographic market, and of a radio broadcast station and a daily newspaper serving the same geographic market. Additionally, the Communications Act and FCC rules also generally prohibit or restrict the common ownership, operation or control of a television broadcast station and a radio broadcast station serving the same geographic market, of a television broadcast station and a daily newspaper serving the same geographic market, and of a television broadcast station and a cable television system serving the same geographic market. Under these rules, absent waivers, the Company would not be permitted to acquire any newspaper or television broadcast station (other than low power television) in a geographic market in which it now owns any radio broadcast properties, or to acquire any newspaper, television broadcast station, radio broadcast station, or cable television system in a geographic market in which it now owns any television broadcast station. The FCC's rules provide for the liberal grant of waiver of the rule prohibiting ownership of radio and television stations in the same geographic market in the top 25 television markets if certain conditions are satisfied. Under the Communications Act, the FCC is directed to extend its waiver policy (one-to-a-market policy) to any of the top 50 television markets. The Communications Act also requires the FCC to conduct a rule-making to determine whether to retain, modify, or eliminate limits on the number of television stations an entity may own, operate, control or have a cognizable interest in, within the same television market. In November 1996, the FCC adopted a Further Notice of Proposed Rule Making to implement this section of the Communications Act. The FCC revised its rules to permit a television station to affiliate with two or more major networks of television broadcast stations under certain conditions. (Major existing networks are still subject to the FCC's dual network ban).

The Company is permitted to own an unlimited number of radio stations on a nationwide basis (subject to local ownership restrictions described below), and an unlimited number of television stations on a nationwide basis so long as the ownership of the stations would not result in an aggregate national audience reach (i.e., the total number of television households in the Arbitron Area of Dominant Influence (ADI) markets in which the relevant stations are located divided by the total national television households as measured by ADI data at the time of a grant, transfer or assignment of a license) of 35%. On March 12, 1998,the Commission initiated its biennial review of broadcast ownership rules to review (a) the UHF Television Discount which attributes 50% of television households in a local television market to the audience reach of a UHF television station for purposes of calculating whether a television station owner complies with the 35% national audience reach cap; (b) the Daily Newspaper/Broadcast Cross-Ownership Rule which prohibits common ownership of a broadcast station and daily newspaper in the same locale; (c) the Cable/Television Cross-Ownership Rule which effectively prohibits common ownership of a broadcast television station and cable system in the same market; (d) the Experimental Broadcast Station Multiple Ownership Rule which limits the number of experimental broadcast stations that can be licensed to or controlled by a person; (e) the National Television Ownership Rule which eliminates a numerical limit on the number of television stations a party may own nationally and increases the national "audience reach" cap of television station ownership from 25% to 35% of television households nationally; (f) the Local Radio Ownership Rule which allows a party to own up to 8 commercial radio stations in a market depending on the number of commercial radio stations in the market; (g) the Dual Network Rule which in effect permits an entity to maintain two or more broadcast networks unless such dual or multiple networks are composed of (1) two or more of the four major networks (ABC, CBS, Fox, NBC), or (2) any of the four major networks and one of the two emerging networks (WBTN, UPN). The Commission also reviewed and restated its approach to granting conditional waivers of broadcast ownership rules that are under active consideration by the Commission in a rulemaking or inquiry proceeding.

Under the Communications Act, the Company is permitted to own radio stations (without regard to the audience shares of the stations) based upon the number of radio stations in the relevant radio market as follows:

Number of Stations In Radio Market	Number of Stations Company Can Own
14 or Fewer	Total of 5 stations, not more than 3 in the same service (AM or FM) except the Company cannot own more than 50% of the stations in the market.
15-29	Total of 6 stations, not more than 4 in the same service (AM or FM).
30-44	Total of 7 stations, not more than 4 in the same service (AM or FM).
45 or More	Total of 8 stations, not more than 5 in the same service (AM or FM).

Notwithstanding the limitations described above, new rules to be promulgated under the Communications Act also will permit the Company to own, operate, control or have a cognizable interest in additional radio broadcast stations if the FCC determines that such ownership, operation, control or cognizable interest will result in an increase in the number of radio stations in operation. No firm date has been established for initiation of this proceeding.

The FCC generally applies its ownership limits to "attributable" interests held by an individual, corporation, partnership or other association. In the case of corporations holding broadcast licenses, the interests of officers, directors and those who, directly or indirectly, have the right to vote 5% or more of the corporation's stock (or 10% or more of such stock in the case of insurance companies, mutual funds, bank trust departments and certain other passive investors that are holding stock for investment purposes only) are generally attributable, as are positions of an officer or director of a corporate parent of a broadcast licensee. Currently, only two of the Company's officers and directors have an attributable interest in any company applying for or licensed to operate broadcast stations other than the Company.

On November 5, 1996, the FCC released another further notice of proposed rulemaking proposing to liberalize the national television ownership limits, to relax or to eliminate the prohibition of ownership of two or more television stations with overlapping grade B contours to grade A, and to eliminate the radio-television cross-ownership rule and apply existing radio Local Market Agreement (LMA) guidelines (as discussed below) to television stations. The Company cannot predict whether any of these proposals will ultimately be adopted by the FCC.

On March 12, 1992, the FCC initiated an inquiry and rulemaking proceeding in which it solicited comment on whether it should alter its ownership attribution rules by (a) raising the basic benchmark for attributing ownership in a corporate licensee from 5% to 10% of the licensee's voting stock; (b) increasing the attribution benchmark for "passive investors" in corporate licensees from 10% to 20% of the licensee's voting stock; (c) broadening the class of investors eligible for "passive investor" status to include Small Business and Minority Enterprise Small Business Investment Companies; and (d) exempting certain widely-held limited partnership interests from attribution where each individual interest represents an insignificant percentage of total partnership equity. On January 12, 1995, the FCC released a Further Notice of Proposed Rulemaking wherein it sought to undertake a thorough review of its attribution rules. The FCC incorporated by reference those comments filed in response to its earlier Notice of Inquiry and asked for updated information on all of the issues raised therein. The FCC also sought comments on the following additional issues:(a) the relevance of its attribution rules as applied to other communications services (such as cable, multi-point distribution systems, personal communications services, and specialized mobile radio); (b) the relevance of other agencies' attribution benchmarks; (c) whether non-voting stock should be attributed in certain circumstances; (d) how to treat limited liability companies for attribution purposes; (e) whether to eliminate its cross-interest policy; and (f) whether certain business interrelationships (such as debt-holders) warrant attribution. On November 5, 1996, the FCC adopted another Further Notice of Proposed Rule Making to inquire into these matters. The Company cannot predict whether any of these proposals will ultimately be adopted by the FCC.

PROGRAMMING AND OPERATION. The Communications Act requires broadcasters to serve the "public interest". Since the late 1970s, the FCC gradually has relaxed or eliminated many of the more formalized procedures it developed to promote the broadcast of certain types of programming responsive to the needs of a station's community of license. However, licensees continue to be required to present programming that is responsive to community problems, needs and interests and to maintain certain records demonstrating such responsiveness. Complaints from listeners concerning a station's programming often will be considered by the FCC when it evaluates renewal applications of a licensee, although such complaints may be filed at any time and generally may be considered by the FCC at any time. Stations also must follow various rules promulgated under the Communications Act that regulate, among other things, political advertising, sponsorship identification, the advertisement of contests and lotteries, obscene and indecent broadcasts, and technical operations, including limits on radio frequency radiation. In addition, licensees must develop and implement affirmative action programs designed to promote equal employment opportunities, and must submit reports to the FCC with respect to these matters on an annual basis and in connection with a renewal application. The FCC now requires the owners of antenna supporting structures (towers) to register them with the FCC. The Company owns such towers that are subject to the registration requirements. The Children's Television Act of 1990 and the FCC's rules promulgated thereunder require television broadcasters to limit the amount of commercial matter which may be aired in children's programming to 10.5 minutes per hour on weekends and 12 minutes per hour on weekdays. The Children's Television Act and the FCC's rules also require each television licensee to serve, over the term of its license, the educational and informational needs of children through the licensee's programming (and to present programming specifically designed to serve such needs). Licensees are required to publicize the availability of this programming and to file annually a report with the FCC on these programs and related matters. On January 1, 1998, a new FCC rule became effective which requires television stations to provide closed captioning for certain video programming according to a schedule that gradually increases the amount of video programming that must be provided with captions.

Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of "short" (less than the full eight-year) renewal terms or, for particularly egregious violations, the denial of a license renewal application or the revocation of a license.

LOCAL MARKET AGREEMENTS. A number of radio stations, including the Company's stations, have entered into what have commonly been referred to as "Local Market Agreements", or "LMAs". While these agreements may take varying forms, under a typical LMA, separately owned and licensed radio stations agree to enter into cooperative arrangements of varying sorts, subject to compliance with the requirements of antitrust laws and with the FCC's rules and policies. Under these types of arrangements, separately-owned stations agree to function cooperatively in terms of programming, advertising sales, etc., subject to the licensee of each station maintaining independent control over the programming and station operations of its own station. One typical type of LMA is a programming agreement among two separately-owned radio stations serving a common service area, whereby the licensee of one station purchases substantial portions of the broadcast day on the other licensee's station, subject to ultimate editorial and other controls being exercised by the latter licensee, and sells advertising time during such program segments. Such arrangements are an extension of the concept of "time brokerage" agreements, under which a licensee of a station sells blocks of time on its station to an entity or entities which purchase the blocks of time and which sell their own commercial advertising announcements during the time periods in question.

In the past, the FCC has determined that issues of joint advertising sales should be left to antitrust enforcement and has specifically revised its so-called "cross-interest" policy to exempt time brokerage arrangements from the scope of its applicability. Furthermore, the staff of the FCC's Mass Media Bureau has held that such agreements are not contrary to the Communications Act provided that the licensee of the station from which time is being purchased by another entity maintains complete responsibility for and control over operations of its broadcast station and assures compliance with applicable FCC rules and policies.

The FCC's rules provide that a station purchasing (brokering) time on another station serving the same market will be considered to have an attributable ownership interest in the brokered station for purposes of the FCC's multiple ownership rules. As a result, under the rules, a broadcast station will not be permitted to enter into a time brokerage agreement giving it the right to purchase more than 15% of the broadcast time, on a weekly basis, of another local station which it could not own under the local ownership rules of the FCC's multiple ownership rules. The FCC's rules also prohibit a broadcast licensee from simulcasting more than 25% of its programming on another station in the same broadcast service (i.e., AM-AM or FM-FM) whether it owns the stations or through a time brokerage or LMA arrangement, where the brokered and brokering stations serve substantially the same geographic area.

OTHER RECENT CHANGES. On March 12,1998, the FCC adopted methodology that will be used to send program ratings information to consumer TV receivers (implementation of "V-Chip" legislation contained in the Communications Act). The FCC also adopted the TV Parental Guidelines developed by the Industry Ratings Implementation Group which apply to all broadcast television programming except for news and sports. As a part of the legislation, television station licensees are required to attach as an exhibit to their applications for license renewal a summary of written comments and suggestions received from the public and maintained by the licensee that comment on the licensee's programming characterized as violent. On another front, on December 24, 1996, the FCC adopted a Report and Order establishing digital television ("DTV") (formerly advanced television or "ATV") standards. On February 17,1998 the FCC adopted a Memorandum Opinion and Order on Reconsideration of the Fifth Report and Order that affirmed the FCC's service rules for the conversion by all U.S. broadcasters to DTV, including build-out construction schedules, NTSC (current system) and DTV channel simulcasting, and the return of analog channels to the government by 2006. As a result, the Company's television station is required to convert its operations from NTSC channel 7 to DTV channel 30 by May 1, 2002, and to cease broadcasting on NTSC channel 7 in 2006, and return channel 7 to the government. Also on February 17, 1998 the FCC adopted a Memorandum Opinion and Order on Reconsideration of the Sixth Report and Order that affirmed the FCC's DTV channel assignments and other technical rules and policies. The FCC has not yet decided how the law requiring the carriage of television signals on local cable television systems should apply to DTV signals. The FCC is also considering proposals to charge broadcast licensees an annual fee in connection with the broadcaster's offering of ancillary or supplementary services on DTV spectrum for which a subscription fee is required.

PROPOSED CHANGES. The FCC has under consideration, and may in the future consider and adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operation and ownership of the Company and its broadcast properties. Such matters include a pending proceeding to revise the FCC's equal employment opportunity requirements for broadcast stations and a proposal to streamline some of the Commission's regulatory processes. On March 3, 1997, the FCC adopted rules for the Digital Audio Radio Satellite Service ("DARS") in the 2310-2360 MHz frequency band. In adopting the rules, the FCC stated, "although healthy satellite DARS systems are likely to have some adverse impact on terrestrial radio audience size, revenues and profits, the record does not demonstrate that licensing satellite DARS would have such a strong adverse impact that it threatens the provision of local service." Because the DARS service is novel, the Company cannot predict whether it will have an adverse impact on its business. Congress has enacted the Balanced Budget Act of 1997 that authorizes the FCC to use auctions for the allocation of radio broadcast spectrum frequencies for commercial use. The implementation of this law could require the Company to bid for the use of certain frequencies. Proposals are pending in Congress to repeal the FCC's ban restricting broadcasters from owning newspapers in the same market. Additionally, the FCC is considering the creation of a new class of low power radio broadcast stations which could result in a new nationwide low power FM service. The Company cannot predict what other changes might be considered in the future, nor can it judge in advance what impact, if any, such changes might have on its business.

EXECUTIVE OFFICERS

The current executive officers of the Company are as follows:

Name	Age	Position
Edward K. Christian	53	President, Chief Executive Officer and Chairman; Director
Steven J. Goldstein	41	Executive Vice President and Group Program Director
Samuel D. Bush	40	Vice President, Chief Financial Officer and Treasurer
Catherine A. Bobinski	38	Corporate Controller

Officers are elected annually by the Board of Directors and serve at the discretion of the Board. Set forth below is certain information with respect to the Company's executive officers.

Mr. Christian has been President, Chief Executive Officer and Chairman since the Company's inception in 1986.

Mr. Goldstein has been Executive Vice President and Group Program Director since 1988. Mr. Goldstein has been employed by the Company since its inception in 1986.

Mr. Bush has been Vice President, Chief Financial Officer and Treasurer since September 1997. From 1988 to 1997 he held various positions with the Media Finance Group at AT&T Capital Corporation, most recently as Senior Vice President.

Ms. Bobinski has been Corporate Controller since September 1991. Ms. Bobinski is a certified public accountant.

ITEM 2. PROPERTIES

The Company's corporate headquarters is located in Grosse Pointe Farms, Michigan. The types of properties required to support each of the Company's stations include offices, studios, transmitter sites and antenna sites. A station's studios are generally housed with its offices in downtown or business districts. The transmitter sites and antenna sites are generally located so as to provide maximum market coverage.

The studios and offices of nine of the Company's twelve station locations, as well as its corporate headquarters in Michigan, are located in facilities owned by the Company. The remaining studios and offices are located in leased facilities with lease terms that expire in 2 to 7 years. The Company owns or leases its transmitter and antenna sites, with lease terms that expire in 1 to 91 years. The Company does not anticipate any difficulties in renewing those leases that expire within the next five years or in leasing other space, if required.

No one property is material to the Company's overall operations. The Company believes that its properties are in good condition and suitable for its operations.

The Company owns substantially all of the equipment used in its broadcasting business.

The Company's bank indebtedness is secured by a first priority lien on all of the assets of the Company and its subsidiaries.

ITEM 3. LEGAL PROCEEDINGS

In the opinion of management of the Company, there are no material legal proceedings pending against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) A Special Meeting of Stockholders was held on December 16, 1997.

(b) Not applicable

(c) At the Special Meeting of Stockholders, the stockholders voted on the following matters:

(1) The proposal to ratify the adoption of an amendment to the Restated Certificate of Incorporation to increase the authorized Class A Common Stock from 15,000,000 shares to 35,000,000 shares and the authorized Class B Common Stock from 1,500,000 shares to 3,500,000 shares was approved with 18,314,584 votes cast for, 940,251 votes cast against, 10,391 abstentions and 0 broker non-votes.

(2) The proposal to ratify the adoption of an amendment to the 1992 Stock Option Plan to increase the number of shares of Class A and Class B Common Stock that may be issued pursuant to the Plan by 682,031 and 150,000, respectively, was approved with 18,534,563 votes cast for, 589,178 votes cast against, 13,493 abstentions and 127,992 broker non-votes.

(d) Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On April 1, 1997 the Company consummated a five-for-four split of its Class A and Class B Common Stock, effective April 1, 1997, resulting in additional shares being issued of approximately 1,772,000 and 242,000, respectively, for holders of record on March 17, 1997.

On April 30, 1996 the Company consummated a five-for-four split of its Class A and Class B Common Stock, resulting in additional shares being issued of approximately 1,417,000 and 193,000, respectively, for holders of record on April 17, 1996.

On July 31, 1995 the Company consummated a five-for-four split of its Class A and Class B Common Stock, resulting in additional shares being issued of approximately 1,130,000 and 155,000, respectively, for holders of record on July 17, 1995.

The Company's Class A Common Stock trades on the American Stock Exchange; there is no public trading market for the Company's Class B Common Stock. The following table sets forth the high and low sales prices of the Class A Common Stock as reported by Tradeline for the calendar quarters indicated:

Year	High	Low
1996:		
First Quarter	$13.76	$10.16
Second Quarter	$17.50	$13.68
Third Quarter	$19.90	$14.60
Fourth Quarter	$18.40	$15.30
1997:		
First Quarter	$18.70	$15.20
Second Quarter	$20.25	$16.63
Third Quarter	$24.63	$18.13
Fourth Quarter	$25.00	$18.75

As of March 16, 1998, there were approximately 160 holders of record of the Company's Class A Common Stock, and one holder of the Company's Class B Common Stock.

The Company has not paid any cash dividends on its Common Stock during the three most recent fiscal years. The Company intends to retain future earnings for use in its business and does not anticipate paying any dividends on shares of its Common Stock in the foreseeable future. The Company is prohibited by the terms of its bank loan agreement from paying dividends on its Common Stock without the banks' prior consent. See Item 7. Management's Discussion and Analysis of Financial Position and Results of Operations - Liquidity and Capital Resources.

ITEM 6. SELECTED FINANCIAL DATA

	YEARS ENDED DECEMBER 31,				
	1997(1)(5)	1996(1)(4)	1995(1)	1994(1)(3)	1993(1)(2)
	(in thousands except per share amounts)				
OPERATING DATA:					
Net Operating Revenue	$66,258	$56,240	$49,699	$44,380	$34,604
Station Operating Expense (excluding depreciation, amortization, corporate general and administrative)	43,796	36,629	32,436	28,878	23,075
Station Operating Income (excluding depreciation, amortization, corporate general and administrative)	22,462	19,611	17,263	15,502	11,529
Depreciation and amortization	5,872	5,508	6,551	5,781	4,753
Corporate General and Administrative	3,953	3,299	2,816	2,639	2,334
Operating Profit	12,637	10,804	7,896	7,082	4,442
Interest Expense	4,769	3,814	3,319	2,867	2,707
Net Income	$ 4,492	$ 3,935	$ 2,678	$ 2,306	$ 757
Basic earnings per share(6)	$ .44	$ .39	$ .27	$ .23	$ .08
Cash Dividends Declared per common share	--	--	--	--	--
Weighted Average Common Shares	10,110	10,059	10,030	10,026	9,422
Diluted earnings per share(6)	$ .44	$ .38	$ .26	$ .23	$ .08
Weighted Average Common Shares and Common Equivalents	10,311	10,253	10,151	10,113	9,422
OTHER DATA:					
After-tax cash flow(7)	$11,083	$10,143	$ 9,564	$ 8,052	$ 5,331
After-tax cash flow per share-basic	$ 1.10	$ 1.01	$ .95	$ .80	$ .57
After-tax cash flow per share-diluted	$ 1.07	$ .99	$ .94	$ .80	$ .57

	DECEMBER 31,				
	1997(5)	1996(4)	1995	1994(3)	1993(2)
	(in thousands)				
BALANCE SHEET DATA:					
Working Capital	$ 1,587	$10,997	$ 3,582	$ 3,828	$ 2,564
Net Fixed Assets	34,028	29,704	26,403	28,640	18,438
Net Intangible Assets	60,886	48,636	34,399	35,923	29,214
Total Assets	112,433	96,415	74,944	78,170	57,647
Long-term Debt Excluding Current Portion	53,466	52,355	32,131	39,969	24,191
Equity	38,255	33,113	28,882	26,328	24,023

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(1) All periods presented include the weighted average shares from public offerings and common equivalents related to certain stock options. In April, 1997, May, 1996 and July, 1995 the Company consummated a five-for-four split of its Class A and Class B common stock. All share and per share information has been restated to reflect the retroactive equivalent change in the weighted average shares.

(2) Reflects the results of KIOA and KXTK, acquired in June, 1993; WYNZ and WZAN, acquired in July, 1993; WQQL, acquired in November, 1993; and the results of a local market agreement for WAFX which began in November, 1993.

(3) Reflects the results of WLZR and WJYI, acquired in April, 1994; WAFX, acquired in April 1994; and KOAM TV, acquired October, 1994.

(4) Reflects the results of WNAX AM/FM, acquired in June, 1996; WPOR AM/FM, acquired in June 1996; the results of a local market agreement for WDBR, WYXY, WTAX, and WVAX which began in July, 1996; and the results of a local market agreement for KAZR which began in August, 1996.

(5) Reflects the results of KAZR, acquired in March, 1997, KLTI, acquired in April, 1997 and the results of a local market agreement for KLTI which began in January, 1997; WDBR, WYXY, WTAX, and WVAX acquired in May, 1997, WFMR and WPNT, acquired in May, 1997;WQLL acquired in November, 1997 and the results of a local market agreement for WQLL which began in July, 1997; and the Illinois Radio Network acquired in November, 1997.

(6) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements.

(7) Defined as net income plus depreciation, amortization (excluding film rights), loss on the sale of assets, and deferred taxes.

ITEM 7. 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 "Selected Financial Data" and the financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein.

GENERAL

The Company's financial results are dependent on a number of factors, the most significant of which is the 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, local market competition, relative efficiency of radio and/or broadcasting compared to other advertising media, signal strength and government regulation and policies. The primary operating expenses involved in owning and operating radio stations are employee salaries, depreciation and amortization, programming expenses, solicitation of advertising, and promotion expenses. In addition to these expenses, owning and operating television stations involve the cost of acquiring certain syndicated programming.

During the years ended December 31, 1997, 1996 and 1995, none of the Company's operating locations represented more than 15% of the Company's station operating income (i.e., net operating revenue less station operating expense), other than the Columbus, Ohio and Milwaukee, Wisconsin stations. For the years ended December 31, 1997, 1996 and 1995, Columbus accounted for an aggregate of 24%, 22%, and 30%, respectively, and Milwaukee accounted for an aggregate of 24%, 23%, and 22%, respectively, of the Company's station operating income. While radio revenues in each of the Columbus and Milwaukee markets have remained relatively stable historically, an adverse change in either radio market or either location's relative market position could have a significant impact on the Company's operating results as a whole. During 1996, a negative change occurred in the relative market revenue share of the Company's Columbus stations. As a result, the Columbus stations operating income decreased 17% from approximately $5,111,000 for the year ended December 31, 1995, to $4,258,000 for the comparable period in 1996. The Columbus stations operating income increased 29% to approximately $5,488,000 in 1997. As disclosed in previous filings, the Company believed the 1996 decrease to be temporary in nature and not representative of a trend affecting either the Columbus market or the Company as a whole.

Because audience ratings in the local market are crucial to a station's financial success, the Company endeavors to develop strong listener/viewer loyalty. The Company believes that the diversification of formats on its radio stations helps the Company to insulate itself from the effects of changes in musical tastes of the public on any particular format.

The number of advertisements that can be broadcast without jeopardizing listening/viewing levels (and the resulting ratings) is limited in part by the format of a particular radio station and, in the case of television stations, by restrictions imposed by the terms of certain network affiliation and syndication agreements. The Company's stations strive to maximize revenue by constantly managing the number of commercials available for sale and adjusting prices based upon local market conditions. In the broadcasting industry, stations often utilize trade (or barter) agreements to generate advertising time sales in exchange for goods or services used or useful in the operation of the stations, instead of for cash. The Company minimizes its use of trade agreements and historically has sold over 95% of its advertising time for cash.

Most advertising contracts are short-term, and generally run only for a few weeks. Most of the Company's revenue is generated from local advertising, which is sold primarily by each station's sales staff. In 1997, approximately 81% of the Company's gross revenue was from local advertising. To generate national advertising sales, the Company engages an independent advertising sales representative that specializes in national sales for each of its stations. See Item 1. Business - Advertising Sales.

The Company's revenue varies throughout the year. Advertising expenditures, the Company's primary source of revenue, generally have been lowest during the winter months comprising the first quarter.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

For the year ended December 31, 1997, the Company's net operating revenue was $66,258,000 compared with $56,240,000 for the year ended December 31, 1996, an increase of $10,018,000 or 18%. Approximately $3,390,000 or 34% of the increase was attributable to stations owned and operated by the Company for at least two years, representing a 6.5% increase in comparable station/comparable period net operating revenue. The overall increase in comparable station/comparable period revenue was primarily the result of increased advertising rates at a majority of the Company's stations. In the Company's Columbus, Ohio market there was a 16% ($1,419,000) increase in net revenue over 1996 reported levels, a reversal of the decreases in the market in 1996. Improvements were noted in most of the Company's markets on a comparable station/comparable period basis. The Company did, however, experience a decline in the Norfolk, Virginia market, where there was a 12% ($805,000) decrease in net revenue, and in the Champaign, Illinois market where there was a 6% ($209,000) decrease in net revenue. The balance of the increase in net operating revenue of approximately $6,620,000 was attributable to revenue generated by stations which were not owned or operated by the Company for the entire comparable period in 1996.

The decrease in revenue in the Norfolk and Champaign markets was primarily the result of aggressive pricing efforts by certain competing stations within the respective markets. The Company believes the competitive pressure which negatively impacted its revenue growth in these markets to be temporary in nature, and expects 1998 revenue to approximate the 1997 levels and does not anticipate that such effects on revenue will persist beyond 1998.

Station operating expense (i.e., programming, technical, selling, and station general and administrative expenses) increased by $7,167,000 or 20% to $43,796,000 for the year ended December 31, 1997, compared with $36,629,000 for the year ended December 31, 1996. Of the total increase, approximately $5,618,000 or 78% was the result of the impact of the operation of stations which were not owned or operated by the Company for the entire comparable period in 1996. The remaining balance of the increase in station operating expense of $1,549,000 represents a total increase in station operating expense of 5% for the year ended December 31, 1997 compared to the year ended December 31, 1996 on a comparable station/comparable period basis.

Operating profit for the year ended December 31, 1997 was $12,637,000 compared to $10,804,000 for the year ended December 31, 1996, an increase of $1,833,000 or 17%. The improvement was primarily the result of the $10,018,000 increase in net operating revenue, offset by the $7,167,000 increase in station operating expense, a $364,000 or 6.6% increase in depreciation and amortization, and a $654,000 or 19.8% increase in corporate general and administrative charges. The increase in depreciation and amortization charges was principally the result of the recent acquisitions. The increase in corporate general and administrative charges was primarily attributable to deferred compensation charges of $210,000 relating to an accrued bonus to the Company's principal stockholder and approximately $50,000 pertaining to option grants primarily to local station management. The remaining increase in corporate general and administrative expenses of approximately $394,000 represents additional costs due to the growth of the Company as a result of the Company's recent acquisitions or an increase of approximately 12% in ordinary recurring expenses.

The Company generated net income in the amount of approximately $4,492,000 ($0.44 per share) during the year ended December 31, 1997 compared with $3,935,000 ($0.39 per share) for the year ended December 31, 1996, an increase of approximately $557,000 or 14%. The increase in net income was principally the result of the $1,833,000 improvement in operating profit, offset by a $955,000 increase in interest costs resulting primarily from an increase in borrowed funds to finance the Company's 1997 acquisitions and a $322,000 increase in income taxes directly associated with the improved operating performance of the Company.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

For the year ended December 31, 1996, the Company's net operating revenue was $56,240,000 compared with $49,699,000 for the year ended December 31, 1995, an increase of $6,541,000 or 13%. Approximately $2,532,000 or 39% of the increase was attributable to stations owned and operated by the Company for at least two years, representing a 5% increase in comparable station/comparable period net operating revenue. Improvements were noted in each market on a comparable station/comparable period basis, with the exception of the Company's Columbus, Ohio market, where there was a 7.8% ($737,000) decrease in net revenue. The overall increase in comparable station/comparable period revenue was primarily the result of increased advertising rates at a majority of the Company's stations. The balance of the increase in net operating revenue of approximately $4,009,000 was primarily the result of the impact of stations the Company acquired and/or began operating during 1996.

The decrease in revenue in the Columbus stations was primarily the result of aggressive competitive pricing efforts by certain competing stations within the Columbus market. Although the stations' combined revenue was below 1995 levels, WSNY-FM remained the top billing station in the Columbus market, based on information available from an independent market revenue reporting service. The Company believes the competitive pressure which negatively impacted its revenue growth in this market to be temporary in nature and does not anticipate that such effects on revenue will persist beyond 1996. During the quarterly reporting period for the three months ended December 31, 1996, the net revenue from the Columbus stations increased slightly (1.3%) over the comparable period in 1995.

Station operating expense (i.e., programming, technical, selling, and station general and administrative expenses) increased by $4,193,000 or 13% to $36,629,000 for the year ended December 31, 1996, compared with $32,436,000 for the year ended December 31, 1995. Of the total increase, approximately $3,440,000 or 82% was the result of the impact of the operation of stations the Company acquired and/or began operating during 1996. The remaining balance of the increase in station operating expense of $753,000 represents a total increase in station operating expense of 2.3% for the year ended December 31, 1996 compared to the year ended December 31, 1995 on a comparable station/comparable period basis.

Operating profit for the year ended December 31, 1996 was $10,804,000 compared to $7,896,000 for the year ended December 31, 1995, an increase of $2,908,000 or 37%. The improvement was primarily the result of the $6,541,000 increase in net operating revenue and a $1,043,000 decrease in depreciation and amortization, offset by the $4,193,000 increase in station operating expense, and a $483,000 or 17% increase in corporate general and administrative charges. The decrease in depreciation and amortization charges was primarily the result of assets in the Company's New England markets becoming fully depreciated. The increase in corporate general and administrative expenses was the result of approximately $280,000 of non-recurring charges associated with certain employee benefit related matters, and approximately $100,000 pertaining to option grants primarily to local station management. The remaining increase in corporate general and administrative expenses of approximately $103,000 represents an increase of approximately 4% in ordinary recurring expenses.

The Company generated net income in the amount of approximately $3,935,000 ($0.38 per share) during the year ended December 31, 1996 compared with $2,678,000 ($0.26 per share) for the year ended December 31, 1995, an increase of approximately $1,257,000 or 47%. The increase in net income was principally the result of the $2,908,000 improvement in operating profit, offset by a $918,000 increase in income taxes directly associated with the improved operating performance of the Company, a $495,000 increase in interest costs resulting primarily from an increase in borrowed funds to finance the Company's 1996 acquisitions, and a $221,000 gain on the sale of assets recorded in 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company's policy is generally to repay its long-term debt with excess cash on hand to reduce its financing costs. As of December 31, 1997, the Company had $61,605,000 of long-term debt (including the current portion thereof) outstanding and approximately $47,250,000 of unused borrowing capacity under the Revolving Loan (as defined below).

The Company has a credit agreement (the "Credit Agreement") with The First National Bank of Boston; The Bank of New York; Fleet Bank, N.A.; Mellon Bank, N.A.; and Union Bank of California, N.A. (collectively, the "Lenders"), with two facilities (the "Facilities"): a $54,000,000 senior secured term loan (the "Term Loan") and a $56,000,000 senior secured reducing revolving/term loan facility (the "Revolving Loan"). The Facilities mature June 30, 2003. The Company's indebtedness under the Facilities is secured by a first priority lien on substantially all the assets of the Company and its subsidiaries, by a pledge of its subsidiaries' stock and by a guarantee of its subsidiaries.

The Revolving Loan has a total commitment of $56,000,000, of which $51,000,000 may be used for permitted acquisitions and related transaction expenses and $5,000,000 may be used for working capital needs and stand-by letters of credit. On June 30, 1998 the Revolving Loan will convert to a five year term loan. The outstanding amount of the Term Loan is required to be reduced quarterly in amounts ranging from 2.5% to 5% of the initial commitment and the outstanding amount of the Revolving Loan is required to be reduced quarterly in amounts ranging from 1.25% to 5% of the initial commitment. In addition, the Facilities may be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios.

Interest rates under the Facilities are payable, at the Company's option, at alternatives equal to LIBOR plus 1.125% to 1.75% or the prime rate plus 0% to .5%. The spread over LIBOR and the prime rate vary from time to time, depending upon the Company's financial leverage. The Company also pays quarterly commitment fees equal to 1/2% per annum on the aggregate unused portion of the Revolving Loan.

The Credit Agreement contains a number of financial covenants which, among other things, require the Company to maintain specified financial ratios and impose certain limitations on the Company with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

At December 31, 1997, the Company had an interest rate swap agreement with a total notional amount of $32,000,000 that it uses to convert the variable Eurodollar interest rate of a portion of its bank borrowings to a fixed interest rate. The swap agreement was entered into to reduce the risk to the Company of rising interest rates. In accordance with the terms of the swap agreement, dated November 21, 1995, the Company pays 6.15% calculated on a $32,000,000 notional amount. The Company receives LIBOR (5.9375% at December 31, 1997) calculated on a notional amount of $32,000,000. Net receipts or payments under the agreement are recognized as an adjustment to interest expense. The swap agreement expires in December 1999. As the LIBOR increases, interest payments received and the market value of the swap position increase. Approximately $154,000 in additional interest expense was recognized as a result of the interest rate swap agreement for the year ended December 31, 1997 and an aggregate amount of $354,000 in additional interest expense has been recognized since the inception of the agreement.

During the years ended December 31, 1997, 1996 and 1995, the Company had net cash flows from operating activities of $11,659,000, $7,679,000, and $9,483,000, respectively. The Company believes 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. If such cash flow is not sufficient to meet such debt service requirements, the Company may be required to sell additional equity securities, refinance its obligations or dispose of one or more of its properties in order to make such scheduled payments. There can be no assurance that the Company would be able to effect any such transactions on favorable terms.

On June 11, 1996, the Company acquired an AM and FM radio station serving the Yankton, South Dakota market for approximately $7,000,000. On June 18, 1996, the Company acquired an AM and FM radio station serving the Portland, Maine market for approximately $10,000,000. The acquisitions were financed by borrowings under the Company's Term Loan.

On March 14, 1997, the Company acquired an FM radio station (KAZR-FM) serving the Des Moines, Iowa market for approximately $2,700,000. The Company began operating the radio station under the terms of a local market agreement on August 1, 1996, which remained in effect until such closing.

On April 17, 1997, the Company acquired an FM radio station (KLTI-FM) serving the Des Moines, Iowa market for approximately $3,200,000. The Company began operating the radio station under the terms of a local market agreement on January 1, 1997, which remained in effect until such closing.

On May 5, 1997, the Company acquired two AM and two FM radio stations (WTAX-AM, WDBR-FM, WVAX-AM, and WYXY-FM) serving the Springfield, Illinois market for approximately $6,000,000. The Company began operating the radio stations under the terms of a local market agreement on July 1, 1996, which remained in effect until such closing.

On May 9, 1997, the Company acquired two FM radio stations (WFMR-FM and WPNT-FM) serving the Milwaukee, Wisconsin market for approximately $5,000,000.

On November 18, 1997, the Company acquired an FM radio station (WQLL-FM) serving the Manchester, New Hampshire market for approximately $3,400,000. The Company began operating the radio station under the terms of a local market agreement on July 1, 1997, which remained in effect until such closing.

On November 25,1997, the Company acquired a regional and state news and sports information network (The Illinois Radio Network) for approximately $1,750,000.

The 1997 acquisitions were financed through funds generated from operations and additional borrowings of $11,250,000 under the Revolving Loan.

On January 14, 1998 the Company signed a letter of intent to purchase a regional and state news and sports information network (The Michigan Radio Network) with an acquisition cost of up to $1,535,000, subject to certain adjustments, of which a maximum of $682,000 would be payable in shares of the Company's Class A Common Stock, and a maximum of $853,000 would be payable in cash.

The Company anticipates that the above and any future acquisitions of radio and television stations will be financed through funds generated from operations, borrowings under the Revolving Loan, additional debt or equity financing, or a combination thereof. However, there can be no assurances that any such financing will be available.

The Company's capital expenditures for the year ended December 31, 1997 were approximately $2,758,000 ($2,107,000 in 1996). The Company anticipates capital expenditures in 1998 to be approximately $3,000,000, which it expects to finance through funds generated from operations or additional borrowings under the revolving loan.

IMPACT OF THE YEAR 2000

Some of the Company's older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive software that recognize a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company has completed an assessment and will have to modify or replace portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The total Year 2000 project cost is estimated at approximately $300,000 which includes the cost of new software and hardware most of which will be capitalized. The project is estimated to be completed not later than December 31, 1998, which is prior to any anticipated impact on its operating systems. The Company believes that with modifications to existing software and conversions to new software, the Year 2000 Issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on the operations of the Company.

The cost of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

INFLATION

The impact of inflation on the Company's 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 the Company's operations.

FORWARD-LOOKING STATEMENTS

Statements contained in this Form 10-K 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, when used in this Form 10-K, words such as "believes," "anticipates," "expects," and similar expressions are intended to identify forward looking statements. The Company cautions that a number of important factors could cause the Company's actual results for 1998 and beyond to differ materially from those expressed in any forward looking statements made by or on behalf of the Company. Forward looking statements involve a number of risks and uncertainties including, but not limited to, the Company's financial leverage and debt service requirements, dependence on key stations, U.S. and local economic conditions, the successful integration of acquired stations, and regulatory matters. The Company cannot assure that it will be able to anticipate or respond timely to changes in any of the factors listed above, 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 the Company's stock.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements attached hereto are filed as part of this annual report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

"Election of Directors" and "Compensation of Directors and Officers - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for the 1998 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 1998 are hereby incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

"Compensation of Directors and Officers" in the Company's Proxy Statement for the 1998 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 1998 is hereby incorporated by reference herein. Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

"Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement for the 1998 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 1998 is hereby incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

"Certain Transactions" in the Company's Proxy Statement for the 1998 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 1998 is hereby incorporated by reference herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements attached hereto pursuant to Item 8 hereof are filed as part of this annual report.

2. Financial Statement Schedules

II - Valuation and Qualifying Accounts

All other schedules for which provision are made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibits

EXHIBIT NO.	DESCRIPTION
3(a)	Amended and Restated Certificate of Incorporation(3(a))*
3(b)	By-laws, as amended(3(b))**
4(a)	Plan of Reorganization(2)*
4(b)	Credit Agreement dated as of May 12, 1994 between the Company and The First National Bank of Boston, as Agent for the lenders(4)***
EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS	
10(a)	Employment Agreement of Edward K. Christian dated April 8, 1997****
10(b)	Saga Communications, Inc. 1992 Stock Option, as amended
10(c)	Summary of Executive Insured Medical Reimbursement Plan(10(2))*
10(d)	Saga Communications, Inc. 1997 Non-Employee Director Stock Option Plan*****
OTHER MATERIAL AGREEMENTS	
10(e)(1)	Promissory Note of Edward K. Christian dated December 10, 1992(10(l)(a))*
10(e)(2)	Amendment to Promissory Note of Edward K. Christian dated December 23, 1995******
10(f)	Pledge Agreement of Edward K. Christian dated December 10, 1992(10(l)(b))*
(21)	Subsidiaries(22)*
(23)	Consent of Ernst & Young LLP
27.1	Financial Data Schedule - December 31, 1997

27.2 Financial Data Schedule - December 31, 1996

27.3 Financial Data Schedule - September 30, 1997

27.4 Financial Data Schedule - September 30, 1996

27.5 Financial Data Schedule - June 30, 1996

* Exhibit indicated in parenthesis of the Company's Registration Statement on Form S-1 (File No. 33-47238) incorporated by reference herein.

** Exhibit indicated in parenthesis of the Company's Form 10-K for the year ended December 31, 1992 incorporated by reference herein.

*** Exhibit indicated in parenthesis of the Company's Form 10-Q for the quarter ended March 31, 1994 incorporated by reference herein.

**** Exhibit indicated in parenthesis of the Company's Form 10-Q for the quarter ended March 31, 1997 incorporated by reference herein.

***** Exhibit indicated in parenthesis of the Company's Form 10-Q for the quarter ended June 30, 1997 incorporated by reference herein.

****** Exhibit indicated in parenthesis of the Company's Form 10-K for the year ended December 31, 1995.

(b) Reports on Form 8-K

None

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Saga Communications, Inc.

We have audited the accompanying consolidated balance sheets of Saga Communications, Inc. and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the index at item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saga Communications, Inc. and subsidiaries at December 31, 1997 and 1996 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Detroit, Michigan
February 13, 1998

SAGA COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	DECEMBER 31, 1997	DECEMBER 31, 1996
ASSETS		
Current assets:		
Cash and temporary investments	$ 2,209	$ 4,339
Accounts receivable, less allowance of $514 ($319 in 1996)	12,833	11,629
Prepaid expenses	1,269	1,100
Barter transactions	748	733
Deferred taxes	460	274
Total current assets	17,519	18,075
Net property and equipment	34,028	29,704
Other assets:		
Favorable lease agreements, net of accumulated amortization of $3,557 ($3,367 in 1996)	836	976
Excess of cost over fair value of assets acquired, net of accumulated amortization of $6,916 ($6,232 in 1996)	20,276	20,047
Broadcast licenses, net of accumulated amortization of $1,614 ($840 in 1996)	35,495	20,906
Other intangibles and deferred costs, net of accumulated amortization of $6,533 ($5,516 in 1996)	4,279	6,707
Total other assets	60,886	48,636
	$112,433	$ 96,415

See accompanying notes.

SAGA COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	DECEMBER 31, 1997	1996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,001	$ 1,008
Accrued expenses:		
Payroll and payroll taxes	3,679	2,545
Other	2,380	1,259
Barter transactions	733	867
Current portion of long-term debt	8,139	1,399
Total current liabilities	15,932	7,078
Deferred income taxes	4,297	3,408
Long-term debt	53,466	52,355
Broadcast program rights	273	461
Deferred compensation	210	--
Stockholders' equity:		
Preferred stock, 1,500 shares authorized, none issued and outstanding	--	--
Common stock:		
Class A common stock, $.01 par value, 35,000 shares authorized, 8,947 issued and outstanding (8,860 in 1996)	89	88
Class B common stock, $.01 par value, 3,500 shares authorized, 1,208 issued and outstanding	12	12
Additional paid in capital	36,513	35,864
Note receivable from principal stockholder	(790)	(790)
Retained earnings (accumulated deficit)	2,431	(2,061)
Total stockholders' equity	38,255	33,113
	$112,433	$96,415

See accompanying notes.

SAGA COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	YEARS ENDED DECEMBER 31, 1997	1996	1995
Net operating revenue	$ 66,258	$ 56,240	$ 49,699
Station operating expense:			
Programming and technical	15,234	13,055	11,114
Selling	18,605	15,197	14,255
Station general and administrative	9,957	8,377	7,067
Total station operating expense	43,796	36,629	32,436
Station operating income before corporate general and administrative, depreciation and amortization	22,462	19,611	17,263
Corporate general and administrative	3,953	3,299	2,816
Depreciation	3,207	3,277	4,221
Amortization	2,665	2,231	2,330
Operating profit	12,637	10,804	7,896
Other expenses:			
Interest expense	4,769	3,814	3,319
Loss (gain) on the sale of assets	16	17	(221)
Income before income tax	7,852	6,973	4,798
Income tax provision:			
Current	2,657	2,355	1,564
Deferred	703	683	556
	3,360	3,038	2,120
Net income	$ 4,492	$ 3,935	$ 2,678
Basic earnings per share	$ .44	$ .39	$ .27
Weighted average common shares	10,110	10,059	10,030
Diluted earnings per share	$ .44	$ .38	$ .26
Weighted average common and common equivalent shares	10,311	10,253	10,151

See accompanying notes.

SAGA COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

(IN THOUSANDS)

	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	NOTE RECEIVABLE FROM PRINCIPAL STOCKHOLDER	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL EQUITY
Balance at December 31, 1994	$ 45	$ 6	$ 35,593	$ (691)	$ (8,625)	$ 26,328
Net costs from common stock offering			(122)			(122)
Net proceeds from exercised options			55			55
Five-for-four stock split	11	2			(13)	--
Accrued interest				(57)		(57)
Net income					2,678	2,678
Balance at December 31, 1995	56	8	35,526	(748)	(5,960)	28,882
Net proceeds from exercised options			338			338
Five-for-four stock splits	32	4			(36)	--
Accrued interest				(42)		(42)
Net income					3,935	3,935
Balance at December 31, 1996	88	12	35,864	(790)	(2,061)	33,113
Net proceeds from exercised options	1		649			650
Net income					4,492	4,492
BALANCE AT DECEMBER 31, 1997	$ 89	$ 12	$ 36,513	$ (790)	$ 2,431	$ 38,255

See accompanying notes.

SAGA COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEARS ENDED DECEMBER 31, 1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,492	$ 3,935	$ 2,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,872	5,508	6,551
Barter revenue, net of barter expenses	(181)	(81)	(109)
Broadcast program rights amortization	237	256	248
Increase in deferred taxes	703	683	556
Loss (gain) on sale of assets	15	17	(221)
Changes in assets and liabilities:			
Decrease (increase) in receivables and prepaids	(1,337)	(2,889)	317
Payments for broadcast program rights	(235)	(253)	(257)
Increase (decrease) in accounts payable, accrued expenses, and other liabilities	2,093	503	(280)
Total adjustments	7,167	3,744	6,805
Net cash provided by operating activities	11,659	7,679	9,483
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(2,758)	(2,107)	(2,325)
Increase in intangibles and other assets	(502)	(4,796)	(123)
Acquisition of stations	(18,595)	(16,956)	--
Proceeds from sale of assets	324	701	675
Net cash used in investing activities	(21,531)	(23,158)	(1,773)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	11,250	19,348	--
Payments on long-term debt	(3,899)	(2,898)	(6,703)
Net proceeds (costs) from common stock offering	--	--	(122)
Net proceeds from exercise of stock options	391	147	41
Net cash provided by (used in) financing activities	7,742	16,597	(6,784)
Net increase (decrease) in cash and temporary investments	(2,130)	1,118	926
Cash and temporary investments, beginning of year	4,339	3,221	2,295
Cash and temporary investments, end of year	$ 2,209	$ 4,339	$ 3,221

See accompanying notes.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Saga Communications, Inc. is a broadcasting company which currently owns thirty-seven radio stations, a television station, and a state radio network, serving twelve markets throughout the Midwest and along the Eastern Seaboard including Columbus, Ohio; Milwaukee, Wisconsin; and Norfolk, Virginia.

BASIS OF PRESENTATION

On April 1, 1997 the Company consummated a five-for-four split of its Class A and Class B Common Stock, resulting in additional shares being issued of 1,772,000 and 242,000, respectively, for holders of record on March 17, 1997.

On April 30, 1996 the Company consummated a five-for-four split of its Class A and Class B Common Stock, resulting in additional shares being issued of 1,417,000 and 193,000, respectively, for holders of record on April 17, 1996.

On July 31, 1995 the Company consummated a five-for-four split of its Class A and Class B Common Stock, resulting in additional shares being issued of 1,130,000 and 155,000, respectively, for holders of record on July 17, 1995.

All share and per share information in the accompanying financial statements has been restated retroactively to reflect the splits.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Saga Communications, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS PER SHARE

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share". Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

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

	YEAR ENDED DECEMBER 31, 1997	1996	1995
	(In thousands)		
Numerator:			
Net income available to common stockholders	$ 4,492	$ 3,935	$ 2,678
Denominator:			
Denominator for basic earnings per share - weighted average shares	10,110	10,059	10,030
Effect of dilutive securities:			
Employee stock options	201	194	121
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	10,311	10,253	10,151
Basic earnings per share	$ .44	$ .39	$ .27
Diluted earnings per share	$ .44	$ .38	$ .26

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is provided using the straight-line method over five to thirty-one and one-half years.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

Other assets are amortized using the straight-line method. Favorable lease agreements are amortized over the lives of the leases. The excess of cost over fair value of identifiable assets acquired and broadcast licenses are amortized over forty years. Other intangibles are amortized over five to forty years.

The excess of cost over the fair value of net assets acquired (or goodwill) is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of goodwill would be reduced by the estimated shortfall of discounted cash flows. To date, no such reductions in goodwill have been recorded.

BARTER TRANSACTIONS

The Company trades air time for goods and services used principally for promotional, sales and other business activities. An asset and a liability are recorded at the fair market value of goods or services received. Barter revenue is recorded when commercials are broadcast, and barter expense is recorded when goods or services are received or used.

BROADCAST PROGRAM RIGHTS

The Company records the capitalized costs of broadcast program rights when the license period begins and the programs are available for use. Amortization of the program rights is recorded using the straight-line method over the license period or based on the number of showings. Amortization of broadcast program rights is included in station operating expense. Unamortized broadcast program rights are classified as current or non-current based on estimated usage in future years.

REVENUE RECOGNITION POLICY

Revenue is recognized as commercials are broadcast.

FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of cash and temporary investments and long-term debt. The carrying value of long-term debt approximates fair value as it carries interest rates that either fluctuate with prime or have been reset at the prevailing market rate at December 31, 1997.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

The Company has an interest rate swap agreement which is its only derivative. See Note 3.

The Company enters into interest-rate swap agreements to modify the interest characteristics of its outstanding debt. Each interest rate swap agreement is designated with all or a portion of the principal balance and term of a specific debt obligation. These agreements involve the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of the interest expense related to the debt (the accrual accounting method). The related amount payable to or receivable from counterparties is included in other liabilities or assets. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest-rate swap agreements are deferred as an adjustment to interest expense related to the debt over the remaining term of the original contract life of the terminated swap agreement. In the event of the early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the swap would be recognized in income coincident with the extinguishment. Any swap agreements that are not designated with outstanding debt or notional amounts (or durations) of interest-rate swap agreements in excess of the principal amounts (or maturities) of the underlying debt obligations are recorded as an asset or liability at fair value, with changes in fair value recorded in other income or expense (the fair value method).

2. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	DECEMBER 31, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Land and land improvements	$ 7,442	$ 7,049
Buildings	10,120	9,219
Towers and antennae	12,706	10,456
Equipment	34,323	30,961
Furniture, fixtures and leasehold improvements	4,619	4,168
Vehicles	1,312	1,178
	70,522	63,031
Accumulated depreciation	(36,494)	(33,327)
Net property and equipment	$ 34,028	$ 29,704

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM DEBT

Long-term debt consists of the following:

	DECEMBER 31, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Senior secured term loan facility (total commitment of $51,784,000) secured by all assets of the Company and subsidiary stock and guarantees. Interest at a Eurodollar rate (5.9063% at December 31, 1997) plus a margin ranging from 1.125% to 1.75%. All interest is due quarterly. The maximum commitment under the facility reduces by 15% in 1998, 15% in 1999, 17.5% in 2000, 20% in 2001, 20% in 2002, and 10% in 2003, based on the original commitment of $53,112,000. In addition, the Senior secured term loan facility may be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios. The facility matures on June 30, 2003.	$ 51,784	$ 53,112
Senior secured reducing revolving term loan facility (total commitment of $56,000,000) secured by all assets of the Company and subsidiary stock and guarantees. Interest at a Eurodollar rate (5.9063% at December 31, 1997) plus a margin ranging from 1.125% to 1.75%. All interest is due quarterly. The loan agreement requires a commitment fee of -1/2% per annum on the daily average amount of the available revolving credit commitment. The maximum commitment under the facility reduces by 15% in 1998, 20% in 1999, 20% in 2000, 20% in 2001, 20% in 2002 and 5% in 2003 based on the original commitment of $56,000,000. On June 30, 1998 the facility will convert to a five year term loan. The facility matures on June 30, 2003.	8,750	--
Subordinated promissory note. Payments are due monthly including interest at 10%. The note matures in 2004.	507	539
Other, primarily covenants not to compete.	564	103
	61,605	53,754
Amounts due within one year	8,139	1,399
	$ 53,466	$ 52,355

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM DEBT (CONTINUED)

Future maturities of long-term debt are as follows:

YEAR ENDING DECEMBER 31,	(IN THOUSANDS)
1998	$ 8,139
1999	8,148
2000	9,483
2001	10,811
2002	16,765
Thereafter	8,259
	$ 61,605

Interest rates under the senior secured term and revolving term loan facilities are payable at the Company's option, at alternatives equal to LIBOR plus 1.125% to 1.75% or the prime rate plus 0% to 0.5%. The spread over LIBOR and the prime rate vary from time to time, depending upon the Company's financial leverage.

The senior secured term and revolving term loans contain a number of covenants (all of which the Company was in compliance with at December 31, 1997) that, among other things, require the Company to maintain specified financial ratios and impose certain limitations on the Company with respect to (i) the incurrence of additional indebtedness; (ii) acquisitions, except under specified conditions; (iii) the incurrence of additional liens, except those relating to capital leases and purchase money indebtedness; (iv) the disposition of assets; (v) the payment of cash dividends; and (vi) mergers, changes in business and management, investments and transactions with affiliates. The loan agreement prohibits the payment of dividends without the banks' prior consent.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM DEBT (CONTINUED)

At December 31, 1997, the Company had an interest rate swap agreement with a total notional amount of $32,000,000 that it used to convert the variable Eurodollar interest rate of a portion of its bank borrowings to a fixed interest rate. The swap agreement was entered into to reduce the risk to the Company of rising interest rates. In accordance with the terms of the swap agreement, the Company pays 6.15% calculated on the $32,000,000 notional amount. The Company receives LIBOR (5.9375% at December 31, 1997) calculated on a notional amount of $32,000,000. Net payments under the agreement are recognized as an adjustment to interest expense. The swap agreement expires in December, 1999. As the LIBOR increases, interest payments received and the market value of the swap position increase. The fair value of the swap agreement at December 31, 1997 was ($70,769), estimated using discounted cash flows analyses, based on a discount rate equivalent to a U.S. Treasury security with a comparable remaining maturity plus a 50 basis point spread for credit risk and other factors.

4. SUPPLEMENTAL CASH FLOW INFORMATION

For the purposes of the statements of cash flows, cash includes temporary investments with maturities of three months or less.

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
Cash paid during the period for:			
Interest	$4,484	$4,181	$3,377
Income taxes	2,235	2,261	1,430
Non-cash transactions:			
Barter revenue	$1,993	$1,842	$2,062
Barter expense	1,812	1,761	1,953
Acquisition of property and equipment	3	45	113

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

In conjunction with the acquisition of the net assets of radio broadcasting companies, liabilities were assumed as follows:

	YEAR ENDED DECEMBER 31, 1997	1996	1995
	(IN THOUSANDS)		
Fair value of assets acquired	$ 19,249	$ 17,098	$ --
Cash paid	(18,595)	(16,956)	--
Liabilities assumed	$ 654	$ 142	$ --

5. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	DECEMBER 31, 1997	1996
	(IN THOUSANDS)	
Deferred tax liabilities:		
Property and equipment	$3,240	$2,674
Intangible assets	1,057	734
Total deferred tax liabilities	4,297	3,408
Deferred tax assets:		
Allowance for doubtful accounts	175	108
Compensation	285	166
Total deferred tax assets	460	274
Net deferred tax liabilities	$3,837	$3,134

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAXES (CONTINUED)

The significant components of the provision for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
Current:			
Federal	$1,972	$1,677	$1,156
State	685	678	408
Total current	2,657	2,355	1,564
Deferred:			
Federal	703	683	556
	$3,360	$3,038	$2,120

The reconciliation of income tax at the U. S. federal statutory tax rates to income tax expense is as follows:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS)		
Tax at U.S. statutory rates	$2,670	$2,371	$1,631
State taxes, net of federal benefit	452	447	269
Amortization of excess of cost over fair value of assets acquired	189	186	186
Other, net	49	34	34
	$3,360	$3,038	$2,120

6. STOCK OPTION PLANS

In 1992, the Company adopted the 1992 Stock Option Plan (the Plan) pursuant to which key employees of the Company, including directors who are employees, are eligible to receive grants of options to purchase Class A Common Stock or Class B Common Stock. At December 31, 1997, 1,569,503 shares of Common Stock are reserved for issuance under the Plan. Options granted under the Plan may be either incentive stock options (within the meaning of Section 422A of the Internal Revenue Code of 1986) or non-qualified options. Incentive stock options granted under the Plan may be for terms not exceeding ten years from the date of grant, except in the case of incentive stock options granted to persons owning more than 10% of the total combined voting power of all classes of stock of the Company, which may be granted for terms not exceeding five years. These options may not be granted at a price which is less than 100% of the fair market value of shares at the time of grant (110% in the case of persons owning more than 10% of the combined voting power of all classes of stock of the Company). In the case of non-qualified stock options granted pursuant to the Plan, the terms and price shall be determined by the Compensation Committee.

In 1997, the Company adopted the 1997 Non-Employee Director Stock Option Plan (the "Directors Plan") pursuant to which directors of the Company who are not employees of the Company, are eligible to receive options under the Directors Plan. 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 shares of the Corporation's Class A Common Stock equal to the amount of the retainer divided by the fair market value of the Corporation's Common Stock on the last trading day of the December immediately preceding the date of grant less $.01 per share. The option exercise price shall be $.01 per share. At December 31, 1997, 100,000 shares of common stock are reserved for issuance under the Directors Plan. Options granted under the Directors Plan are non-qualified stock options and shall be immediately vested and exercisable on the date of grant. The options may be exercised for a period of 10 years from the date of grant of the option. On January 31, 1998 a total of 1,572 shares were issued under the Directors Plan in lieu of their directors' retainer for the year ended December 31, 1997.

6. STOCK OPTION PLANS (CONTINUED)

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations, in accounting for its employee and non-employee director stock options. Under APB 25, when the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Total compensation costs recognized in the income statement for stock based compensation awards to employees for the years ended December 31, 1997, 1996 and 1995, was $246,000, $203,000 and $101,000, respectively. Total Directors fees recognized in the income statement for stock based compensation awards for the year ended December 31, 1997 was $33,000.

In October 1995 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123 (Statement 123), "Accounting for Stock-Based Compensation." This standard defines a fair value based method of accounting for an employee stock option or similar equity instrument.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of the Company's stock options were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995, respectively: risk-free interest rates of 5.75%, 6.4% and 6.4%; a dividend yield of 0%; expected volatility of 29%, 27.9% and 28.5%; and a weighted average expected life of the options of 7 years. Under these assumptions, the weighted average fair value of an option to purchase one share granted in 1997, 1996 and 1995, was approximately $10.22, $12.59 and $8.24, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK OPTION PLANS (CONTINUED)

For purposes of the pro forma disclosures required under Statement 123, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	1997	1996	1995
	(In thousands except per share data)		
Pro forma net income	$4,460	$3,917	$2,674
Pro forma earnings per share:			
Basic	$ .44	$ .39	$ .27
Diluted	$ .43	$ .38	$ .26

The following summarizes the stock option transactions for the three years ended December 31, 1997.

	NUMBER OF OPTIONS	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE PRICE PER SHARE
Options outstanding at December 31, 1994	512,109	$ .005 to $ 7.81	$ 5.59
Granted	43,357	2.71	2.71
Exercised	(7,812)	5.31	5.31
Forfeited	(27,343)	5.300 to 7.81	6.14
Options outstanding at December 31, 1995	520,311	.005 to 7.81	5.32
Granted	46,750	5.300 to 11.39	7.58
Exercised	(35,078)	.005 to 7.81	4.21
Forfeited	(4,388)	2.710 to 7.81	5.32
Options outstanding at December 31, 1996	527,595	.005 to 11.39	5.60
Granted	22,500	14.50	14.50
Exercised	(86,826)	.005 to 11.39	4.51
Forfeited	(11,389)	5.300 to 11.39	7.61
Options outstanding at December 31, 1997	451,880	$ 2.710 to $ 14.50	$ 6.20

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK OPTION PLANS (CONTINUED)

Options exercisable at December 31:	
1997	297,881
1996	267,105
1995	203,984
Available for grant at December 31:	
1997	1,117,623
1996	296,688
1995	339,063

Stock options outstanding at December 31, 1997 are summarized as follows:

EXERCISE PRICE	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
$ 2.714	39,057	15,623	7.2
$ 5.304	292,952	229,835	5.4
$ 7.808	82,371	49,423	6.2
$ 11.392	15,000	3,000	8.2
$ 14.500	22,500	--	9.3
	451,880	297,881	6.0
Weighted Average Exercise Price	$ 6.197	$ 5.645	

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

STATION ACQUISITIONS

The Company acquired an FM radio station (KAZR-FM) serving the Des Moines, Iowa market on March 14, 1997. The purchase price was approximately $2,700,000. The Company began operating the radio station under the terms of a local market agreement on August 1, 1996, which remained in effect until such closing.

The Company acquired an FM radio station (KLTI-FM) serving the Des Moines, Iowa market on April 17, 1997. The purchase price was approximately $3,200,000. The Company began operating the radio station under the terms of a local market agreement on January 1, 1997, which remained in effect until the acquisition.

The Company acquired two AM and two FM radio stations (WTAX-AM, WDBR-FM, WVAX-AM, and WYXY-FM) serving the Springfield, Illinois market on May 5, 1997. The purchase price was approximately $6,000,000. The Company began operating the radio stations under the terms of a local market agreement on July 1, 1996, which remained in effect until the acquisition.

The Company acquired two FM radio stations (WFMR-FM and WPNT-FM) serving the Milwaukee, Wisconsin market on May 9, 1997. The purchase price was approximately $5,000,000.

The Company acquired an FM radio station (WQLL-FM) serving the Manchester, New Hampshire market on November 18, 1997. The purchase price was approximately $3,400,000. The Company began operating the radio station under the terms of a local market agreement on July 1, 1997, which remained in effect until the acquisition.

The Company acquired the assets of a regional and state news and sports information network (The Illinois Radio Network) serving more than 45 radio stations throughout the state of Illinois, on November 25, 1997. The purchase price was approximately $1,750,000.

The Company acquired two radio stations (WNAX AM/FM) in Yankton, South Dakota on June 11, 1996 and two radio stations (WPOR AM/FM) in Portland, Maine on June 18, 1996. The purchase prices of these acquisitions were approximately $7,000,000 and $10,000,000, respectively.

7. PRO FORMA FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

STATION ACQUISITIONS (CONTINUED)

All acquisitions have been 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 has been recorded as broadcast licenses, other intangibles, and goodwill. The consolidated statements of income include the operating results of the acquired businesses from their respective dates of acquisition or operation under the terms of local market agreements.

The following unaudited pro forma results of operations of the Company for the years ended December 31, 1997 and 1996 assume the 1997 and 1996 acquisitions occurred as of the beginning of the immediately preceding year. 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.

	1997	1996	1995
	(In thousands except per share data)		
PRO FORMA RESULTS OF OPERATIONS FOR ACQUISITIONS:			
Net operating revenue	$68,060	$64,206	$55,163
Net income	$ 4,298	$ 3,192	$ 2,863
Basic earnings per share	$ .43	$ .32	$ .29
Diluted earnings per share	$ .42	$ .31	$ .28

8. CONCENTRATION OF CREDIT RISK

The Company sells advertising to local and national companies throughout the United States. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains an allowance for doubtful accounts at a level which management believes is sufficient to cover potential credit losses.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. NOTE RECEIVABLE FROM PRINCIPAL STOCKHOLDER

The loan from the Company to the principal stockholder is on a non-recourse basis and bears interest at a rate per annum equal to the lowest rate necessary to avoid the imputation of income for federal income tax purposes, with the principal and interest due and payable in a single payment on December 31, 2002. The note is secured by the Class B Common Stock currently owned by the principal stockholder.

During 1997, the Company entered into a five year employment agreement with the principal stockholder. As part of the agreement, if the principal stockholder remains an employee of the Company for the term of the agreement, the Company will pay him an amount in cash equal to the unpaid balance of the note plus such amount as is necessary to enable the principal stockholder or his estate to pay all related federal and state income tax liabilities. At December 31, 1997 the Company recorded approximately $210,000 in compensation expense related to the agreement.

10. WARRANTS EXERCISED

In connection with its initial public offering in December 1992, the Company issued Class A Common Stock and warrants to purchase Class A Common Stock at the rate of 2/5 of a warrant with each share of Class A Common Stock. Each warrant entitled its holder to purchase one share of Class A Common Stock for $7.68 on or before June 18, 1995. At the closing of the offering, the Company acquired for $669,600, warrants from a stockholder identical to those offered to the public on substantially the same terms as offered to the public. On June 16, 1995, the Company exercised 1,589,164 (the amount exercised by the public) of the 1,595,000 total warrants with the stockholder. Thus, the exercise of the warrants did not have a dilutive effect on the shares of the Company's stock outstanding.

11. COMMON STOCK

Dividends. Stockholders are entitled to receive such dividends as may be declared by the Company's Board of Directors out of funds legally available for such purpose. No dividend may be declared or paid in cash or property on any share of any class of Common Stock, however, unless simultaneously the same dividend is declared or paid on each share of the other class of common stock. In the case of any stock dividend, holders of Class A Common Stock are entitled to receive the same percentage dividend (payable in shares of Class A Common Stock) as the holders of Class B Common Stock receive (payable in shares of Class B Common Stock). The payment of dividends is prohibited by the terms of the Company's bank loan agreement, without the banks' prior consent.

Voting Rights. Holders of shares of Common Stock vote as a single class on all matters submitted to a vote of the stockholders, with each share of Class A Common Stock entitled to one vote and each share of Class B Common Stock entitled to ten votes, except (i) in the election for directors, (ii) with respect to any "going private" transaction between the Company and the principal stockholder, and (iii) as otherwise provided by law.

In the election of directors, the holders of Class A Common Stock, voting as a separate class, are entitled to elect two of the Company's directors. The holders of the Common Stock, voting as a single class with each share of Class A Common Stock entitled to one vote and each share of Class B Common Stock entitled to ten votes, are entitled to elect the remaining directors. The Board of Directors consists of six members. Holders of Common Stock are not entitled to cumulative votes in the election of directors.

The holders of the Common Stock vote as a single class with respect to any proposed "going private" transaction with the principal stockholder, with each share of each class of Common Stock entitled to one vote per share.

Under Delaware law, the affirmative vote of the holders of a majority of the outstanding shares of any class of common stock is required to approve, among other things, a change in the designations, preferences and limitations of the shares of such class of common stock.

Liquidation Rights. Upon liquidation, dissolution, or winding-up of the Company, the holders of Class A Common Stock are entitled to share ratably with the holders of Class B Common Stock in all assets available for distribution after payment in full of creditors.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. COMMON STOCK (CONTINUED)

Other Provisions. Each share of Class B Common Stock is convertible, at the option of its holder, into one share of Class A Common Stock at any time. One share of Class B Common Stock converts automatically into one share of Class A Common Stock upon its sale or other transfer to a party unaffiliated with the principal stockholder or, in the event of a transfer to an affiliated party, upon the death of the transferor.

12. COMMITMENTS AND CONTINGENCY

Leases

The Company leases certain land, buildings and equipment under noncancellable operating leases. Rent expense for the year ended December 31, 1997 was $1,191,000 ($977,000 and $911,000 for the years ended December 31, 1996 and 1995, respectively). Minimum annual rental commitments under noncancellable operating leases consisted of the following at December 31, 1997:

	OPERATING LEASES (In thousands)
1998	1,142
1999	755
2000	449
2001	333
2002	295
Thereafter	434
	$ 3,408

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. COMMITMENTS AND CONTINGENCY (CONTINUED)

Broadcast Program Rights

The Company has entered into contracts for broadcast program rights that expire at various dates during the next five years. The aggregate minimum payments relating to these commitments consisted of the following at December 31, 1997:

	BROADCAST PROGRAM RIGHTS (In thousands)
1998	206
1999	184
2000	89
	$ 479
Amounts due within one year (included in accounts payable)	206
	$ 273

Principal Stockholder Agreement

In April, 1997 the Company entered into a five year employment agreement with its principal stockholder which provides that, upon the consummation of a sale or transfer of control of the Company, the principal stockholder's employment will be terminated and the Company will pay the principal stockholder an amount equal to five times the average of his total annual compensation for the preceding three years, plus an additional amount as is necessary for applicable income taxes related to the payment. At December 31, 1997 the stockholders average compensation was approximately $591,000.

13. SUBSEQUENT EVENT

On January 14, 1998 the Company signed a letter of intent to purchase a regional and state news and sports information network (The Michigan Radio Network) for approximately $1,535,000, subject to certain adjustments, of which a maximum of $682,000 would be payable in shares of the Company's Class A Common Stock, and a maximum of $853,000 would be payable in cash. The transaction is subject to certain conditions, including the completion of a definitive asset purchase agreement, and is expected to close during the second quarter of 1998.

SAGA COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The 1996 and first three quarters of 1997 earnings per share amounts have been restated to comply with Statement of Financial Accounting Standards No. 128, "Earnings per Share".

	MARCH 31,		JUNE 30,		SEPTEMBER 30,		DECEMBER 31,	
	1997	1996	1997	1996	1997	1996	1997	1996
	(In thousands, except per share data)							
Net operating revenue	$ 13,515	$ 10,955	$ 17,508	$ 14,003	$ 17,091	$ 15,021	$ 18,144	$ 16,261
Station operating expense:								
Programming and technical	3,668	2,872	3,686	2,944	3,928	3,583	3,952	3,656
Selling	3,798	3,094	5,132	3,922	4,317	3,750	5,358	4,431
Station general and administrative	2,541	1,897	2,414	1,887	2,486	2,223	2,516	2,370
Total station operating expense:	10,007	7,863	11,232	8,753	10,731	9,556	11,826	10,457
Station operating income before corporate general and administrative, depreciation and amortization	3,508	3,092	6,276	5,250	6,360	5,465	6,318	5,804
Corporate general and administrative	807	748	1,074	892	959	994	1,113	665
Depreciation and amortization	1,282	1,269	1,450	1,303	1,520	1,450	1,620	1,486
Operating profit	1,419	1,075	3,752	3,055	3,881	3,021	3,585	3,653
Other expenses:								
Interest expense	1,211	733	1,172	780	1,325	1,154	1,061	1,147
Loss (gain) on the sale of assets	6	3	1	17	--	(3)	9	--
Income before income tax	202	339	2,579	2,258	2,556	1,870	2,515	2,506
Income tax provision	88	145	1,087	965	1,077	800	1,108	1,128
Net income	$ 114	$ 194	$ 1,492	$ 1,293	$ 1,479	$ 1,070	$ 1,407	$ 1,378
Basic earnings per share	$ .01	$ .02	$ .15	$ .13	$ .15	$ .11	$ .14	$ .14
Weighted average common shares	10,069	10,034	10,069	10,065	10,143	10,067	10,156	10,069
Diluted earnings per share	$ .01	$ .02	$ .15	$ .13	$ .14	$ .10	$ .14	$ .13
Weighted average common and common equivalents outstanding	10,273	10,191	10,285	10,246	10,329	10,259	10,344	10,268

SAGA COMMUNICATIONS, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS: CHARGED TO COSTS AND EXPENSES	ADDITIONS: CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
Year Ended December 31, 1997					
Allowance for doubtful accounts	$ 319	$ 549		$ 354(1)	$ 514
Accumulated amortization - Favorable lease agreement	$3,367	$ 190			$3,557
Accumulated amortization - Excess of cost over fair value of assets purchased	$6,232	$ 684			$6,916
Accumulated amortization - Broadcast license	$ 840	$ 774			$1,614
Accumulated amortization - Other intangibles	$5,516	$1,017			$6,533
Year Ended December 31, 1996					
Allowance for doubtful accounts	$ 295	$ 365		$ 341(1)	$ 319
Accumulated amortization - Favorable lease agreement	$3,056	$ 311			$3,367
Accumulated amortization - Excess of cost over fair value of assets purchased	$5,575	$ 657			$6,232
Accumulated amortization - Broadcast license	$ 422	$ 418			$ 840
Accumulated amortization - Other intangibles	$4,671	$ 845			$5,516
Year Ended December 31, 1995					
Allowance for doubtful accounts	$ 274	$ 534		$ 513(1)	$ 295
Accumulated amortization - Favorable lease agreement	$2,716	$ 389		$ 49(2)	$3,056
Accumulated amortization - Excess of cost over fair value of assets purchased	$4,918	$ 657			$5,575
Accumulated amortization - Broadcast license	$ 148	$ 225	$ 49(2)		$ 422
Accumulated amortization - Other intangibles	$3,612	$1,059			$4,671

(1) Write-off of uncollectible accounts, net of recoveries.
(2) Represents the reclass of accumulated amortization of favorable lease.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 27, 1998.

SAGA COMMUNICATIONS, INC.

By: /s/ Edward K. Christian

Edward K. Christian
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 27, 1998.

Signatures

/s/ Edward K. Christian Edward K. Christian	President, Chief Executive Officer, and Chairman of the Board
/s/ Samuel D. Bush Samuel D. Bush	Vice President, Chief Financial Officer and Treasurer
/s/ Catherine Bobinski Catherine Bobinski	Corporate Controller and Chief Accounting Officer
/s/ Kristin M. Allen Kristin M. Allen	Director
/s/ Donald J. Alt Donald J. Alt	Director
/s/ Jonathan Firestone Jonathan Firestone	Director
/s/ Joseph P. Misiewicz Joseph P. Misiewicz	Director
/s/ Gary Stevens Gary Stevens	Director

Exhibit 10(b) Saga Communications, Inc. 1992 Stock Option Plan, as amended

SAGA COMMUNICATIONS, INC.
1992 STOCK OPTION PLAN

Adopted: April 14, 1992
Effective: December 10, 1992
Amended: May 9, 1994 and December 16, 1997

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SAGA COMMUNICATIONS, INC.
1992 STOCK OPTION PLAN
AS AMENDED

Section 1.
TITLE

This plan shall be known as the "Saga Communications, Inc. 1992 Stock Option Plan".

Section 2.
PURPOSE

The Saga Communications, Inc. 1992 Stock Option Plan establishes a method of granting options to purchase the Class A Common Stock and Class B Common Stock of the Corporation in order to encourage stock ownership by officers and key employees of the Corporation, to provide an incentive for such persons to expand and improve the profits and prosperity of the Corporation, and to assist the Corporation in attracting key personnel.

Section 3.
DEFINITIONS

3.1 "Board" means the Board of Directors of the Corporation.

3.2 "Committee" means the Stock Option Committee of the Board, which shall be comprised, in the discretion of the Board, of three or more Directors, each of whom is a "disinterested person" with the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934. Until the Committee is established, the Board shall have and exercise the authority and powers of the Committee described herein.

3.3 "Class A Common Stock" means shares of the Class A Common Stock, $.0l par value, of the Corporation.

3.4 "Class B Common Stock" means shares of the Class B Common Stock, $.0l par value, of the Corporation.

3.5 "Common Stock" means shares of the Class A Common Stock and Class B Common Stock, collectively.

3.6 "Corporation" means Saga Communications, Inc., a Delaware corporation.

3.7 "Disability" means inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve months, as determined pursuant to Section 22(e)(3) of the Internal Revenue Code.

3.8 "Employee" means an employee or officer of any Participating Corporation.

3.9 "Incentive Stock Option" means an Option that is an "incentive stock option" as defined in Section 422A(b) of the Internal Revenue Code.

3.10 "Internal Revenue Code" means the United States Internal Revenue Code of 1986, or any of its successors, and applicable rules and regulations promulgated thereunder, each as amended through the date of adoption of the Plan, or as each may in the future be amended and applicable to the Plan.

3.11 "Non-Qualified Stock Option" means an Option that is not an Incentive Stock Option.

3.12 "Option" means any option granted under the Plan, including both Incentive Stock Options and Non-Qualified Stock Options.

3.13 "Option Agreement" means any written agreement pursuant to the Plan between the Corporation and a Participant regarding any option.

3.14 "Optionee" means a Participant who has delivered to the Corporation or a Participating Corporation a signed Option Agreement pursuant to Section 6.5 of the Plan.

3.15 "Option Shares" means shares of Common Stock that are issued or may be required to be issued upon exercise of an Option and shares that are issued thereafter with respect to such shares, including shares issued by reason of a stock split, consolidation, dividend, stock exchange, recapitalization, reclassification or the like.

3.16 "Participant" means a person to whom an Option has been granted.

3.17 "Participating Corporation" means the Corporation and any present or future parent or subsidiary of the Corporation that the Committee elects to treat as a Participating Corporation.

3.18 "Plan" means this Saga Communications, Inc. 1992 stock Option Plan, as amended.

Section 4.
STOCK RESERVED FOR OPTIONS

4.1 Subject to adjustment in accordance with the provisions of Section 14.1 of the Plan, as of December 16, 1997, 1,419,474 shares of Class A Common Stock and 150,000 shares of Class B Common Stock shall be reserved for issuance upon the exercise of Options granted under the Plan.

4.2 Any or all of the shares subject to Options under the Plan may be authorized but unissued shares of Common Stock, or issued shares of Common Stock that have been or shall have been reacquired by the Corporation, as the Committee shall from time to time determine.

4.3 If any Option shall expire or terminate for any reason without having been exercised in full, the unpurchased shares of Common Stock previously subject to the Option shall again be available for the purposes of the Plan.

Section 5.
ELIGIBILITY

5.1 The Committee may grant Incentive Stock Options only to those key Employees whom the Committee, in its sole discretion, identifies as being in a position which will enable such Employees to materially contribute to the Participating Corporation's continued growth, development and future financial success.

5.2 The Committee may grant Non-Qualified Stock Options to Employees, or to such other persons, as the Committee deems appropriate in its sole and exclusive discretion, without regard to the provisions of Section 5.1.

5.3 The Committee may grant Incentive Stock Options for Class B Common Stock and Non-Qualified Options for Class B Common Stock only to Edward K. Christian.

Section 6.
GRANTS OF OPTIONS

6.1 The Committee shall clearly designate and identify each Option at the time it is granted as either an Incentive stock Option or a Non-Qualified Stock Option, as the case may be.

6.2 The Committee may grant both Incentive Stock Options and Non-Qualified Stock Options to the same Employee, provided that the exercise of one such option does not in any way affect the Employee's right to exercise the other.

6.3 The date of grant of an Option shall be the date that the Committee granted the Option or such other date as the Committee, in its discretion, may specify at the time that it grants such Option.

6.4 Upon granting an Option, the Committee shall notify the Participant to whom the Option shall have been granted and shall deliver an Option Agreement to such Participant. Delivery of an Option Agreement shall be deemed to occur when personally delivered or when sent by registered or certified mail, return receipt requested, postage prepaid to the Participant.

6.5 An Option shall expire thirty (30) days after delivery of the Option Agreement to the Participant unless the Option Agreement shall have been signed by the Participant to whom the Option is granted and returned to the Corporation within such period.

6.6 Nothing contained in the Plan shall be construed to limit the right of a Participating Corporation to grant options otherwise than under the Plan for any corporate purpose, including the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation or other entity.

Section 7.
PURCHASE PRICE

7.1 Subject to Section 7.2 of the Plan, the purchase price of Option Shares granted under an Incentive Stock Option shall be one hundred percent (100%) of the fair market value of the Option Shares at the time of granting of the Incentive Stock Option, or such greater amount as the Committee, in its discretion, may fix. The Committee shall determine the fair market value of the Option Shares. In so determining the fair market value of Common Stock, the Committee shall disregard any restrictions other than a restriction that, by its terms, will never lapse.

7.2 The purchase price of Option Shares granted under an Incentive Stock Option to an Employee who owns, immediately prior to the grant of such an Incentive Stock Option, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Corporation or any parent or subsidiary corporation, shall be at least one hundred ten percent (110%) of the fair market value of the Common Stock (determined in accordance with the provisions of Section 7.1) at the time that such Incentive Stock Option is granted. The provisions of Section 425(d) of the Internal Revenue Code shall control determination of the percentage of stock ownership for the purpose of this Section 7.2.

7.3 The purchase price of Option Shares granted under a Non-Qualified Stock Option shall be determined by the Committee, operating in its sole and exclusive discretion, without regard to the provisions of Sections 7.1 and 7.2.

7.4 No variable price options shall be permitted.

Section 8.
TERM OF OPTIONS

8.1 The Committee, in its discretion, may prescribe in the Option Agreement, the period during which Options may be exercised, provided, that an Incentive Stock Option shall not be exercisable more than ten (10) years from the date upon which it is granted, and, provided further, that an Incentive Stock Option granted to an Employee described in Section 7.2 above shall not be exercisable more than five (5) years from the date upon which it is granted.

8.2 In the Option Agreement, the Committee, in its discretion, may prescribe conditions or events which may result in the shortening or termination of the period during which an option may be exercised.

Section 9.
EXERCISE OF OPTIONS

9.1 Subject to the provisions of Sections 9.3 and 9.4, the Committee, in its discretion, may prescribe in the Option Agreement the manner in which, the number and size of the installments (which need not be equal) for which, and the contingencies upon which an option may be exercised during its term.

9.2 No option or installment thereof shall be exercisable except in respect of whole shares. Fractional share interests shall be disregarded, except that they may be accumulated. If an Optionee does not purchase all the shares that the Optionee shall be entitled to purchase in any given installment period, or if a fractional share interest shall remain, then the Optionee's right to purchase the remaining shares or fractional shares shall continue until expiration of such Option. No less than two hundred fifty (250) shares may be purchased at one time unless the number purchased is the total number that may then be purchased under the Option.

9.3 During any calendar year, an Optionee may exercise an Incentive Stock Option only to the extent that the aggregate fair market value of the Common Stock (determined in accordance with the provisions of Section 7.1 of the Plan) with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during such calendar year (under this Plan and all similar plans of the Participating Corporation by which the Optionee is employed and its parent or subsidiary corporations) does not exceed One Hundred Thousand Dollars ($100,000).

9.4 Except as otherwise provided in Sections 9.5, 9.6 and 9.7, no Incentive Stock Option may be exercised unless, at the time of exercise, the Optionee shall be an Employee or the Optionee's status as an Employee shall have terminated within the preceding three (3) months. Incentive Stock Options granted under the Plan shall not be affected by any change in the nature of the Optionee's employment so long as the Optionee continues to be an Employee. Option Agreements may contain such provisions as the Committee may approve with reference to the effect of approved leaves of absence. Nothing in the Plan, or in any Option Agreement, or any Option, shall confer upon any individual any right to continue in the employ of any Participating Corporation, or shall interfere in any way with the right of any Participating Corporation to terminate the status of any Employee at any time.

9.5 If the holder of an Incentive Stock Option retires at the normal retirement date as prescribed from time to time under any policy of the Participating Corporation then in force or at any other date with the consent of such Participating Corporation, he may exercise his Incentive Stock Option at any time within three (3) months after such retirement, to the extent of the number of shares that he shall have been entitled to purchase on the date of his retirement.

9.6 If the holder of an Incentive Stock Option ceases to be employed by a Participating Corporation because of Disability, he may exercise his Incentive Stock Option within twelve months from the date of the termination of his employment, to the extent of the number of shares that he shall have been entitled to purchase on the date his employment terminated.

9.7 If the holder of an Incentive Stock Option dies: (a) while he is an Employee, (b) within three (3) months after the termination of his employment, or (c) within twelve (12) months after the termination of his employment on account of Disability, his legatee or legatees or his personal representatives or distributees (collectively, "legal representatives") may exercise the holder's Incentive Stock Option to the extent of the number of shares that the holder shall have been entitled to purchase on the date of the holder's death.

9.8 The Committee, in its discretion, shall determine the extent, if any, to which the holder of a Non-Qualified Stock Option may exercise said Option upon his termination as an Employee, his retirement or Disability, or to which a legal representative of a deceased holder of a Non-Qualified Stock Option may exercise said Option after the death of the holder.

Section 10.
PAYMENT FOR OPTION SHARES

10.1. Upon the exercise of an Incentive Stock Option the purchase price of the Option Shares shall be paid in full in cash or by personal check, or by transfer to the Corporation by the Optionee of stock of the Corporation owned by the Optionee which, on the date of such a transfer, has a fair market value equal to the purchase price of the Option Shares.

10.2 The means of payment for Option Shares purchased under a Non-Qualified Stock Option shall be determined by the Committee, operating in its sole discretion.

10.3 The proceeds received from the sale of Option Shares shall be added to the general funds of the Corporation and shall be used for such of its corporate purposes as the Board shall determine.

Section 11.
ADMINISTRATION OF THE PLAN

11.1 The Plan shall be administered by the Committee.

11.2 Subject to the express provisions of the Plan, the Committee, in its sole discretion, shall have the plenary authority to: (a) grant or refrain from granting Options; (b) determine the individuals to whom, and the time or times at which, Options shall be granted; the type of Option to be granted; the number of shares of Common Stock to be subject to each Option; the class of shares of Common Stock to be subject to each Option; and the purchase price of the Common Stock subject to each Option; (c) interpret the Plan; (d) prescribe, amend and rescind rules and regulations relating to the Plan; (e) determine the terms, conditions and provisions of all Option Agreements entered into pursuant to the Plan (which need not be identical); and (f) make all other determinations necessary or advisable for administration of the Plan.

11.3 The Committee's determination of all matters referred to the Committee's discretion shall be final and conclusive. In making such determinations, the Committee may take into account such factors as the Committee, in its discretion, may deem relevant, including the nature of the services rendered by the individuals involved and the present and potential contributions of such individuals to the success of the Corporation.

11.4 No member of the Committee, nor of the Board of Directors of any Participating Corporation, nor any officer, director, employee or agent of any Participating Corporation, shall be liable for any action or determination made, or other action taken, in good faith with respect to the Plan or any Option.

Section 12.
TRANSFERABILITY OF OPTIONS

12.1 No Incentive Stock Option granted under the Plan shall be transferable otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. An Incentive Stock Option may be exercised, during the lifetime of the Optionee, only by him.

12.2 The Committee, operating in its sole and exclusive discretion, shall determine the restrictions, if any, on transferability of Non-Qualified Stock Options without regard to the provisions of Section 12.1.

12.3 Each Option Agreement may contain such provisions consistent with this Plan as the Committee, in its discretion, may determine to be appropriate for restriction on transfer, and redemption by the Corporation, or other disposition, of all Option Shares received by the

Optionee (or his legal representatives), notwithstanding any tax consequences to the Optionee of such restriction, redemption or other disposition.

Section 13.
NO RIGHTS AS SHAREHOLDER

The holder of an Option shall have none of the rights of a shareholder of the Corporation with respect to the Option Shares until such shares shall have been issued to him upon exercise of his Option in accordance with the terms of the Plan.

Section 14.
ADJUSTMENTS UPON CHANGES IN CAPITALIZATION AND THE LIKE

14.1 If any change in the outstanding Common Stock of the Corporation by reason of stock dividends, stock splits, subdivisions, exchanges of shares, or recapitalizations, is effected after the effective date of the Plan without receipt of consideration by the Corporation, then the aggregate number of shares reserved for issuance upon the exercise of Options granted under the Plan shall be appropriately adjusted by the Board, whose determination shall be conclusive. Each Option Agreement may contain such provisions as the Committee, in its discretion, shall determine to be appropriate for adjustment of the number of Option Shares and of the purchase price provided for in such Option. Any such adjustments may provide for elimination of any fractional shares that might otherwise become subject to any Option.

14.2 Each Option Agreement may contain such provisions as the Committee, in its discretion, shall determine to be appropriate for the termination of, adjustment in or vesting or repurchase of shares and Options, in the event of the dissolution or liquidation of the Corporation, or upon any consolidation or merger involving the Corporation, or upon sale or transfer of all or substantially all of the assets of the Corporation, or upon exchange by the stockholders of the Corporation of 80% or more of the shares of the Corporation for securities of another entity.

14.3 The existence of any Option shall not in any way prevent any Participating Corporation from engaging in any of the transactions described in this Section 14, nor shall it confer any rights upon the holder of any such Option to participate in any such transaction, except those expressly conferred by the Plan and the Option Agreement pursuant to which such Option shall have been granted.

14.4 Nothing contained in this Plan shall prevent the assumption of an Option, or the substitution of a new option for an Option, by any corporation, or the parent or subsidiary of any corporation, that becomes the employer of an Optionee by reason of a merger, consolidation, acquisition, reorganization or liquidation; provided, however, that with respect to an Incentive Stock Option, the following additional conditions are applicable:

(a) the excess of the aggregate fair market value of the shares subject to the Option immediately after the substitution or assumption over the aggregate option price of such shares is not more than the excess of the aggregate fair market value of the Option Shares immediately before such substitution or assumption over the aggregate purchase price of the Option Shares; and

(b) the new option or the assumption of the old Option does not give the Optionee additional benefits that the Optionee did not have under the old Option.

Section 15.
AMENDMENT AND TERMINATION

15.1 Unless the Plan shall have been terminated sooner, the Plan shall terminate on, and no Option shall be granted after: (a) the later of the tenth (10th) anniversary of: (i) the date upon or as of which the Plan is adopted, or (ii) the date upon which the Plan is approved by the shareholders of the Corporation; or (b) the date upon which the total number of shares set forth in Section 4.1 of the Plan shall have been issued pursuant to the Plan.

15.2 The shareholders of the Corporation may terminate, modify or amend the Plan at any time.

15.3 The Board also may terminate, modify or amend the Plan at any time, provided that, without the approval of the shareholders of the Corporation, the Board shall not change (a) the maximum number of shares as to which Options may be granted under the Plan (except as the number provided in Section 4.1 may be adjusted from time to time in accordance with Section 14.1), or (b) the class of Employees eligible to receive Incentive Stock Options.

15.4 Except as may be set forth in a Plan Agreement, no termination, modification or amendment of the Plan shall adversely affect the rights of any Optionee under an Option Agreement without such Optionee's written consent.

Section 16.
EFFECTIVENESS OF THE PLAN

The Plan shall become effective only upon (a) adoption by the Board and (b) approval by the shareholders of the Corporation within twelve (12) months before or after the date of such adoption by the Board.

Section 17.
GOVERNING LAW

This Plan shall be governed by and construed under the laws of the State of Delaware.

Exhibit 23 - Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8) effective March 12, 1993 and May 25, 1994 pertaining to the Saga Communications, Inc. 1992 Stock Option Plan, the Registration Statement (Form S-8) effective June 6, 1997 pertaining to the Saga Communications, Inc. 1997 Non-employee Director Stock Option Plan, and in the related Prospectus' of our report dated February 13, 1998 with respect to the consolidated financial statements and schedule of Saga Communications, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 1997.

/s/ Ernst & Young LLP

Ernst & Young LLP

Detroit, Michigan
March 27, 1998

5
1,000
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