UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period ended June 30, 2019
or

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

For the transition period from __________ to

Commission file number 1-11588

Saga Communications, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $.01 per share	SGA	NASDAQ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No ☐

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

Large accelerated filer ☐ Accelerated filer þ Non-accelerated filer ☐ Smaller Reporting Company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's Class A Common Stock, $.01 par value, and Class B Common Stock, $.01 par value, outstanding as of August 5, 2019 was 5,022,910 and 922,918, respectively.

INDEX

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2019 (Unaudited)	December 31, 2018 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 38,512	$ 44,729
Accounts receivable, net	18,937	19,984
Prepaid expenses and other current assets	2,106	2,556
Barter transactions	1,818	1,326
Total current assets	61,373	68,595
Property and equipment	142,741	140,220
Less accumulated depreciation	83,501	81,117
Net property and equipment	59,240	59,103
Other assets:		
Broadcast licenses, net	95,311	95,250
Goodwill	18,974	18,839
Other intangibles, deferred costs and investments, net	12,254	6,690
	$ 247,152	$ 248,477
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,840	$ 2,613
Payroll and payroll taxes	7,374	7,899
Dividend payable	1,784	3,274
Other accrued expenses	4,904	3,072
Barter transactions	1,664	1,307
Current portion of long-term debt	—	5,000
Total current liabilities	17,566	23,165
Deferred income taxes	24,432	23,732
Long-term debt	10,000	15,000
Other liabilities	6,560	1,581
Total liabilities	58,558	63,478
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock	76	76
Additional paid-in capital	65,806	64,795
Retained earnings	159,225	156,689
Treasury stock	(36,513)	(36,561)
Total stockholders' equity	188,594	184,999
	$ 247,152	$ 248,477

Note: The balance sheet at December 31, 2018 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Certain prior period amounts have been reclassified to conform to the current year presentation.

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited) (In thousands, except per share data)			
Net operating revenue	$ 32,191	$ 32,234	$ 60,007	$ 60,243
Station operating expense	22,879	23,140	46,042	46,537
Corporate general and administrative	2,706	2,848	5,391	5,392
Other operating (income) expense, net	(2)	213	1	(38)
Operating income	6,608	6,033	8,573	8,352
Interest expense	184	255	392	474
Interest income	(160)	(188)	(323)	(277)
Income before income tax expense	6,584	5,966	8,504	8,155
Income tax expense	1,850	1,795	2,400	2,455
Net income	$ 4,734	$ 4,171	$ 6,104	$ 5,700
Earnings per share:				
Basic	$ .80	$ .70	$ 1.03	$ .96
Diluted	$ .80	$ .70	$ 1.03	$ .96
Weighted average common shares	5,844	5,834	5,843	5,838
Weighted average common and common equivalent shares	5,844	5,834	5,843	5,838
Dividends declared per share	$ .30	$ .30	$ .60	$ .60

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Retained	Treasury	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Equity
	(In thousands)							
Balance at December 31, 2017	6,694	$ 67	898	$ 9	$ 62,675	$ 151,608	$ (34,894)	$ 179,465
Net income, Three months ended March 31, 2018						1,529		1,529
Issuance of restricted stock	4	—	—	—	—	—	—	—
Dividends declared per common share	—	—	—	—	—	(1,784)	—	(1,784)
Compensation expense related to restricted stock awards	—	—	—	—	551	—	—	551
Purchase of shares held in treasury	—	—	—	—	—	—	(93)	(93)
401(k) plan contribution	—	—	—	—	(80)	—	333	253
Balance at March 31, 2018	6,698	$ 67	898	$ 9	$ 63,146	$ 151,353	$ (34,654)	$ 179,921
Net income, Three months ended June 30, 2018						4,171		4,171
Forfeiture of restricted stock	(1)	—	—	—	—	—	—	—
Dividends declared per common share	—	—	—	—	—	(1,777)	—	(1,777)
Compensation expense related to restricted stock awards	—	—	—	—	553	—	—	553
Purchase of shares held in treasury	—	—	—	—	—	—	(454)	(454)
Balance at June 30, 2018	6,697	$ 67	898	$ 9	$ 63,699	$ 153,747	$ (35,108)	$ 182,414

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Retained	Treasury	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Equity
	(In thousands)							
Balance at December 31, 2018	6,732	$ 67	923	$ 9	$ 64,795	$ 156,689	$ (36,561)	$ 184,999
Net income, Three months ended March 31, 2019						1,370		1,370
Dividends declared per common share	—	—	—	—	—	(1,784)	—	(1,784)
Compensation expense related to restricted stock awards	—	—	—	—	559	—	—	559
Purchase of shares held in treasury	—	—	—	—	—	—	(80)	(80)
401(k) plan contribution	—	—	—	—	(113)	—	375	262
Balance at March 31, 2019	6,732	$ 67	923	$ 9	$ 65,241	$ 156,275	$ (36,266)	$ 185,326
Net income, Three months ended June 30, 2019						4,734		4,734
Dividends declared per common share	—	—	—	—	—	(1,784)	—	(1,784)
Compensation expense related to restricted stock awards	—	—	—	—	565	—	—	565
Purchase of shares held in treasury	—	—	—	—	—	—	(247)	(247)
Balance at June 30, 2019	6,732	$ 67	923	$ 9	$ 65,806	$ 159,225	$ (36,513)	$ 188,594

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2019	**2018**
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	$ 12,830	$ 13,193
Cash flows from investing activities:		
Acquisition of property and equipment	(3,162)	(2,906)
Acquisition of broadcast properties	(763)	—
Other investing activities	263	307
Net cash used in investing activities	(3,662)	(2,599)
Cash flows from financing activities:		
Cash dividends paid	(5,058)	(10,091)
Payments on long-term debt	(10,000)	—
Purchase of treasury shares	(327)	(547)
Other financing activities	—	(75)
Net cash used in financing activities	(15,385)	(10,713)
Net decrease in cash and cash equivalents	(6,217)	(119)
Cash and cash equivalents, beginning of period	44,729	53,030
Cash and cash equivalents, end of period	$ 38,512	$ 52,911

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of June 30, 2019 and the results of operations for the three and six months ended June 30, 2019 and 2018. Results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

We own or operate broadcast properties in 27 markets, including 79 FM and 34 AM radio stations.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2018.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2019, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

Earnings Per Share Information

Earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security. The Company has participating securities related to restricted stock units, granted under the Company's Second Amended and Restated 2005 Incentive Compensation Plan, that earn dividends on an equal basis with common shares. In applying the two-class method, earnings are allocated to both common shares and participating securities.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
	(In thousands, except per share data)			
Numerator:				
Net income	$ 4,734	$ 4,171	$ 6,104	$ 5,700
Less: Income allocated to unvested participating securities	88	71	114	97
Net income available to common stockholders	$ 4,646	$ 4,100	$ 5,990	$ 5,603
Denominator:				
Denominator for basic earnings per share — weighted average shares	5,844	5,834	5,843	5,838
Effect of dilutive securities:				
Common stock equivalents	—	—	—	—
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	5,844	5,834	5,843	5,838
Earnings per share:				
Basic	$ .80	$ .70	$ 1.03	$ .96
Diluted	$ .80	$ .70	$ 1.03	$ .96

There were no stock options outstanding that had an antidilutive effect on our earnings per share for the three and six months ended June 30, 2019 and 2018. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

Financial Instruments

Our financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short maturities. The carrying value of long-term debt approximates fair value as it carries interest rates that either fluctuate with the euro-dollar rate, prime rate or have been reset at the prevailing market rate at June 30, 2019.

Income Taxes

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

Time Brokerage Agreements/Local Marketing Agreements

We have entered into Time Brokerage Agreements (“TBAs”) or Local Marketing Agreements (“LMAs”) in certain markets. In a typical TBA/LMA, the FCC licensee of a station makes available, for a fee, blocks of air time on its station to another party that supplies programming to be broadcast during that air time and sells their own commercial advertising announcements during the time periods specified. Revenue and expenses related to TBAs/LMAs are included in the accompanying unaudited Condensed Consolidated Statements of Income. Assets and liabilities related to the TBAs/LMAs are included in the accompanying unaudited Condensed Consolidated Balance Sheets.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *“Leases (Topic 842)”* (“ASU 2016-02”) which requires that all leases with a term of more than one year, covering leased assets such as real estate, broadcasting towers and equipment, be reflected on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2018. In 2018, the FASB issued several updates to address certain practical expedients, codification improvements, and targeted improvements to the original guidance. This standard and all updates (the “new lease standard”) were adopted on January 1, 2019. The Company adopted the new lease standard using the modified retrospective method. Prior year financial statements were not recast under the new standard and, therefore, have not been reflected as such on our December 31, 2018 balance sheet. We elected the package of transition practical expedients, which allowed us to carryforward our historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. We elected to not separate lease and non-lease components, for all leases. We also elected to make the accounting policy election for short-term leases resulting in lease payments being recorded as an expense on a straight-line basis over the lease term. As a result of the adoption of the new lease standard we recorded right of use assets and lease liabilities of approximately $6.7 million on January 1, 2019 on our condensed consolidated balance sheet. The adoption of the new lease standard had no impact on retained earnings and had no impact on the statement of cash flows. See Note 6 “Leases” for additional information about this adoption.

Recent Accounting Pronouncements – Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, "*Intangibles – Goodwill and Other (Topic 355)*" ("ASU 2017-04") which removes step 2 from the goodwill impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds it fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 will be applied prospectively and is effective for fiscal years and interim impairment tests performed in periods beginning after December 15, 2019 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"), which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. ASU 2016-13 is effective for fiscal years and interim periods beginning after December 15, 2019. The Company is currently evaluating the impact that this standard will have on our consolidated financial statements.

3. Revenue

Adoption of ASC 606, Revenue from Contract with Customers (Topic 606)

We adopted Topic 606 on January 1, 2018, using the modified retrospective method with no impact on our financial statements. The cumulative effect of initially adopting Topic 606 guidance had no impact on the opening balance of retained earnings as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606 revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Disaggregation of Revenue

The following table presents revenues disaggregated by revenue source:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Types of Revenue				
Broadcast Advertising Revenue, net	$ 29,492	$ 29,798	$ 54,683	$ 55,556
Digital Advertising Revenue	1,015	1,001	1,890	1,951
Other Revenue	1,684	1,435	3,434	2,736
Net Revenue	$ 32,191	$ 32,234	$ 60,007	$ 60,243

Nature of goods and services

The following is a description of principal activities from which we generate our revenue:

Broadcast Advertising Revenue

Our primary source of revenue is from the sale of advertising for broadcast on our stations. We recognize revenue from the sale of advertising as performance obligations are satisfied upon airing of the advertising; therefore, revenue is recognized at a point in time when each advertising spot is transmitted. Agency commissions are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory placed by agency and are reported as a reduction of advertising revenue.

Digital Advertising Revenue

We recognize revenue from our digital initiatives across multiple platforms such as targeted digital advertising, online promotions, advertising on our websites, mobile messaging, email marketing and other e-commerce. Revenue is recorded when each specific performance obligation in the digital advertising campaign takes place, typically within a one month period.

Other Revenue

Other revenue includes revenue from concerts, promotional events, tower rent and other miscellaneous items. Revenue is generally recognized when the event is completed, as the promotional events are completed or as each performance obligation is satisfied.

Contract Liabilities

Payments from our advertisers are generally due within 30 days although certain advertisers are required to pay in advance. When an advertiser pays for the services in advance of the performance obligations these prepayments are recorded as contract liabilities. Typical contract liabilities relate to prepayments for advertising spots not yet run; prepayments from sponsors for events that have not yet been held; and gift cards sold on our websites used to finance a broadcast advertising campaign. Generally, all contract liabilities are expected to be recognized within one year and are included in accounts payable in the Company’s Condensed Consolidated Financial Statements and are immaterial.

Transaction Price Allocated to the Remaining Performance Obligations

As the majority of our contracts are one year or less, we have utilized the optional exemption under ASC 606-10-50-14 and will not disclose information about the remaining performance obligations for contracts that have original expected durations of one year or less.

4. Intangible Assets

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

Intangible assets that have finite lives are amortized over their useful lives using the straight-line method. Favorable lease agreements are amortized over the lives of the leases ranging from five to twenty-six years. Other intangibles are amortized over one to fifteen years. Customer relationships are amortized over three years.

5. Common Stock and Treasury Stock

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through June 30, 2019:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2018	6,694	898
Conversion of shares	12	(12)
Issuance of restricted stock	27	37
Forfeiture of restricted stock	(1)	—
Balance, December 31, 2018	6,732	923
Balance, June 30, 2019	6,732	923

We have a Stock Buy-Back Program to allow us to purchase up to $75.8 million of our Class A Common Stock. As of June 30, 2019, we have remaining authorization of $20.1 million for future repurchases of our Class A Common Stock. On September 14, 2017, the Board of Directors authorized the repurchase of our Class A Common Stock under our trading plan adopted pursuant to Securities and Exchange Commission Rule 10b5-1. The Rule 10b5-1 repurchase plan allows us to repurchase our shares during periods when we would normally not be active in the market due to our internal trading blackout periods. Under the plan, we may repurchase our Class A Common Stock in any combination of open market, block transactions and privately negotiated transactions subject to market conditions, legal requirements including applicable SEC regulations (which include certain price, market, volume and timing constraints), specific repurchase instructions and other corporate considerations. Purchases under the plan will be funded by cash on our balance sheet. The plan does not obligate us to acquire any particular amount of Class A Common Stock. The authorization was effective until September 1, 2018. During the three and six months ended June 30, 2019 and June 30, 2018, approximately 8,600, 11,100, 12,000 and 14,500 shares, respectively, were repurchased for $247,000, $327,000, $454,000 and $547,000 respectively, related to the Stock Buy-Back Program.

6. Leases

We lease certain land, buildings and equipment for use in our operations. We recognize lease expense for these leases on a straight-line basis over the lease term and combine lease and non-lease components for all leases. Right-of-use (“ROU”) assets and lease liabilities are recorded on the balance sheet for all leases with an expected term of at least one year. Some leases include one or more options to renew. The exercise of lease renewal options is generally at our discretion. The depreciable lives of ROU assets are limited to the expected lease term. Our lease agreements do not contain any residual value guarantees or material restrictive covenants. As of June 30, 2019, we do not have any non-cancellable operating lease commitments that have not yet commenced.

ROU assets are classified within other intangibles, deferred costs and investments, net on the condensed consolidated balance sheet while current lease liabilities are classified within other accrued expenses and long-term lease liabilities are classified within other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets and lease liabilities were $5.9 million and $6.1 million at June 30, 2019, respectively. Payments on lease liabilities during the three and six months ended June 30, 2019 totaled $405 thousand and $816 thousand, respectively.

Lease expense includes cost for leases with terms in excess of one year. For the three and six months ended June 30, 2019, our total lease expense was $423 thousand and $852 thousand, respectively. Short-term lease costs are de minimus.

We have no financing leases and minimum annual rental commitments under non-cancellable operating leases consisted of the following at June 30, 2019 (in thousands):

Years Ending December 31,		
2019 *(a)*	$	824
2020		1,450
2021		1,313
2022		1,124
2023		777
Thereafter		1,840
Total lease payments *(b)*		7,328
Less: Interest *(c)*		1,195
Present value of lease liabilities *(d)*	$	6,133

(a) Remaining payments are for the six-months ending December 31, 2019.

(b) Lease payments include options to extend lease terms that are reasonably certain of being exercised. There were no legally binding minimum lease payments for leases signed but not yet commenced at June 30, 2019.

(c) Our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our discount rate for such leases to determine the present value of lease payments at the lease commencement date.

(d) The weighted average remaining lease term and weighted average discount rate used in calculating our lease liabilities were 6.9 years and 4.8%, respectively, at June 30, 2019.

7. Acquisitions and Dispositions

We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. The consolidated statements of income include the operating results of the acquired stations from their respective dates of acquisition. All acquisitions were accounted for as purchases and, accordingly, the total purchase consideration was allocated to the acquired assets and assumed liabilities based on their estimated fair values as of the acquisition dates. The excess of the consideration paid over the estimated fair value of net assets acquired have been recorded as goodwill. The Company accounts for acquisitions under the provisions of FASB ASC Topic 805, *Business Combinations*.

Management assigned fair values to the acquired property and equipment through a combination of cost and market approaches based upon each specific asset's replacement cost, with a provision for depreciation, and to the acquired intangibles, primarily an FCC license, based on the Greenfield valuation methodology, a discounted cash flow approach.

2019 Acquisitions

On January 9, 2019, the Company closed on an agreement to purchase WFAT and W222CH from County Broadcasting Company, LLC for an aggregate purchase price of $210 thousand. Management attributes the goodwill recognized in the acquisition to the power of the existing brands in the Greenfield, Massachusetts market as well as synergies and growth opportunities expected through the combination with the Company's existing stations.

2018 Acquisitions

On October 29, 2018, the Company entered into an agreement to purchase WOGK-FM, WNDT-FM, WNDD-FM and WNDN-FM, from Ocala Broadcasting Corporation, LLC for an aggregate purchase price of $9.3 million, subject to certain purchase price adjustments. The Company closed this transaction effective December 31, 2018 using funds generated from operations of $9.84 million, which included the purchase price of $9.3 million, the purchase of $566 thousand in accounts receivable by certain closing adjustments and transactional costs of approximately $25 thousand, of which $553 thousand was paid in January 2019. Management attributes the goodwill recognized in the acquisition to the power of the existing brands in the Ocala, Florida market as well as synergies and growth opportunities expected through the combination with the Company's existing stations.

Condensed Consolidated Balance Sheet of 2019 and 2018 Acquisitions:

The following unaudited condensed balance sheets represent the estimated fair value assigned to the related assets and liabilities of the 2019 and 2018 acquisitions at their respective acquisition dates.

Saga Communications, Inc.

Condensed Consolidated Balance Sheet of 2019 and 2018 Acquisitions

	Acquisitions in	
	2019	2018
	(In thousands)	
Assets Acquired:		
Current assets	$ —	$ 559
Property and equipment	25	3,007
Other assets:		
Broadcast licenses	61	1,991
Goodwill	124	3,281
Other intangibles, deferred costs and investments	—	1,123
Total other assets	185	6,395
Total assets acquired	210	9,961
Liabilities Assumed:		
Current liabilities	—	120
Total liabilities assumed	—	120
Net assets acquired	$ 210	$ 9,841

Pro Forma Results of Operations for Acquisitions (Unaudited)

The following unaudited pro forma results of our operations for the three and six months ended June 30, 2019 and 2018 assume the 2018 acquisitions occurred as of January 1, 2018. The translators are start-up stations and therefore, have no pro forma revenue and expenses. 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 that would actually have occurred had the combinations been in effect on the dates indicated or which may occur in the future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
ProForma Results of Operation				
Net operating revenue	$ 32,191	$ 33,473	$ 60,007	$ 62,448
Station operating expense	22,879	24,064	46,042	48,296
Corporate general and administrative	2,706	2,848	5,391	5,392
Other operating (income) expense, net	(2)	213	1	(38)
Operating income	6,608	6,348	8,573	8,798
Interest expense	184	255	392	474
Interest income	(160)	(188)	(323)	(277)
Income before income tax expense	6,584	6,281	8,504	8,601
Income tax expense	1,850	1,890	2,400	2,589
Net income	$ 4,734	$ 4,391	$ 6,104	$ 6,012
Earnings per share:				
Basic	$ .80	$ .74	$ 1.03	$ 1.01
Diluted	$ .80	$ .74	$ 1.03	$ 1.01

8. Income taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, the following that impact us: (1) reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent; (2) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized; (3) creating a new limitation on deductible interest expense; (4) repealing the domestic production activities deduction; (5) limiting the deductibility of certain executive compensation; and (6) limiting certain other deductions.

The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides for a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting relating to the Tax Act under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

As a result of our initial analysis of the impact of the Tax Act, we recorded a provisional amount of net tax benefit of $11.5 million in 2017 related to the remeasurement of our deferred tax balance and other effects. We completed our accounting for the income tax effects of the Tax Act in 2018, and no material adjustments were required to the provisional amounts initially recorded.

9. Stock-Based Compensation

2005 Incentive Compensation Plan

On October 16, 2013 our stockholders approved the Second Amended and Restated Saga Communications, Inc. 2005 Incentive Compensation Plan, which was amended in 2018 after approval of the amendment by our stockholders at our 2018 annual meeting (as amended, the “Second Restated 2005 Plan”). The 2005 Incentive Compensation Plan, which replaced our 2003 Stock Option Plan, was first approved by stockholders in 2005, subsequently re-approved by stockholders in 2010. The changes in the Second Restated 2005 Plan approved in 2013 (i) increased the number of authorized shares by 233,334 shares of Common Stock, (ii) extended the date for making awards to September 6, 2018, (iii) included directors as participants, (iv) targeted awards according to groupings of participants based on ranges of base salary of employees and/or retainers of directors, (v) required participants to retain 50 % of their net annual restricted stock awards during their employment or service as a director, and (vi) included a clawback provision. The 2018 amendment to the Second Restated 2005 Plan (i) extended the date for making awards to September 6, 2023 and (ii) increased the number of authorized shares under the Plan by 90,000 shares of Class B Common Stock. The Second Restated 2005 Plan allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to eligible employees and non-employee directors.

The number of shares of Common Stock that may be issued under the Second Restated 2005 Plan may not exceed 370,000 shares of Class B Common Stock, 990,000 shares of Class A Common Stock of which up to 620,000 shares of Class A Common Stock may be issued pursuant to incentive stock options and 370,000 Class A Common Stock issuable upon conversion of Class B Common Stock. Awards denominated in Class A Common Stock may be granted to any employee or director under the Second Restated 2005 Plan. However, awards denominated in Class B Common Stock may only be granted to Edward K. Christian, President, Chief Executive Officer, Chairman of the Board of Directors, and the holder of 100% of the outstanding Class B Common Stock of the Company. Stock options granted under the Second Restated 2005 Plan may be for terms not exceeding ten years from the date of grant and may not be exercised at a price which is less than 100% of the fair market value of shares at the date of grant.

Stock-Based Compensation

All stock options granted were fully vested and expensed at December 31, 2012, therefore there was no compensation expense related to stock options for the three and six months ended June 30, 2019 and June 30, 2018, respectively.

There were no options granted during 2019 and 2018 and there were no stock options outstanding as of June 30, 2019. All outstanding stock options were exercised in 2017.

The following summarizes the restricted stock transactions for the six months ended June 30, 2019:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	109,176	$ 40.87
Non-vested and outstanding at June 30, 2019	109,176	$ 40.87

For the three and six months ended June 30, 2019 and the three and six months ended June 30, 2018, we had $565,000, $1,124,000, $554,000 and $1,105,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. This expense is included in corporate general and administrative expenses in our results of operations. The associated tax benefit recognized for the three and six months ended June 30, 2019 and the three and six months ended June 30, 2018, was $62,000, $125,000, $63,000 and $126,000, respectively.

10. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2019	December 31, 2018
	(In thousands)	
Revolving credit facility	$ 10,000	$ 20,000
Amounts payable within one year	—	(5,000)
	$ 10,000	$ 15,000

On August 18, 2015, we entered into a new credit facility (the "Credit Facility") with JPMorgan Chase Bank, N.A., The Huntington National Bank, Citizens Bank, National Association and J.P. Morgan Securities LLC. In connection with the execution of the Credit Facility, the credit agreement in place at June 30, 2015 (the "Old Credit Agreement") was terminated, and all outstanding amounts were paid in full. The Credit Facility consists of a $100 million five-year revolving facility (the "Revolving Credit Facility") and originally matured on August 18, 2020. On June 27, 2018, the Company entered into a Second Amendment to its Credit Facility, dated August 18, 2015, which had previously been amended on September 1, 2017, extending the revolving credit maturity date under the Credit Agreement for five years after the date of the amendment to June 27, 2023.

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

Approximately $266,000 of transaction fees related to the Credit Facility were capitalized and are being amortized over the life of the Credit Facility. Those deferred debt costs are included in other assets, net in the condensed consolidated balance sheets. As a result of the Second Amendment, the Company incurred an additional $120,000 of transaction fees related to the Credit Facility that were capitalized. The cumulative transaction fees are being amortized over the remaining life of the Credit Facility.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (2.4375% at June 30, 2019), plus 1% to 2% or the base rate plus 0% to 1%. The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. Letters of credit issued under the Credit Facility will be subject to a participation fee (which is equal to the interest rate applicable to Eurocurrency Loans, as defined in the Credit Agreement) payable to each of the Lenders and a fronting fee equal to 0.25% per annum payable to the issuing bank. We also pay quarterly commitment fees of 0.2% to 0.3% per annum on the unused portion of the Revolving Credit Facility.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at June 30, 2019) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

On June 7, 2019, we used $5,000,000 from funds generated by operations to voluntarily pay down a portion of our Revolving Credit Facility.

On February 4, 2019, we used $5,000,000 from funds generated by operations to voluntarily pay down a portion of our Revolving Credit Facility which is presented in the current portion of long-term debt on our balance sheet at December 31, 2018.

On September 4, 2018, we used $5,000,000 from funds generated by operations to pay down a portion of our Revolving Credit Facility.

We had approximately $90 million of unused borrowing capacity under the Revolving Credit Facility at June 30, 2019.

On July 1, 2019, we elected to reduce our Revolving Credit Facility to $70 million. As a result, we had approximately $60 million of unused borrowing capacity at July 1, 2019.

11. Litigation

The Company is subject to various outstanding claims which arise in the ordinary course of business and to other legal proceedings. Management anticipates that any potential liability of the Company, which may arise out of or with respect to these matters, will not materially affect the Company’s financial statements.

12. Dividends

On May 30, 2019, the Company's Board of Directors declared a regular cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million, was paid on July 5, 2019 to shareholders of record on June 14, 2019 and funded by cash on the Company's balance sheet.

On February 26, 2019, the Company's Board of Directors declared a regular cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million, was paid on March 29, 2019 to shareholders of record on March 12, 2019 and funded by cash on the Company's balance sheet.

On November 28, 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.30 per share and a special cash dividend of $0.25 per share on its Classes A and B shares. This dividend totaling approximately $3.3 million was paid on January 4, 2019 to shareholders of record on December 10, 2018 and funded by cash on the Company's balance sheet.

On August 14, 2018, the Company's Board of Directors declared a regular cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million was paid on September 14, 2018 to shareholders of record on August 31, 2018 and funded by cash on the Company's balance sheet.

On May 15, 2018, the Company's Board of Directors declared a regular cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million, was paid on June 22, 2018 to shareholders of record on May 31, 2018 and funded by cash on the Company's balance sheet.

On February 28, 2018, the Company's Board of Directors declared a regular quarterly cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million, was paid on March 30, 2018 to shareholders of record on March 12, 2018 and funded by cash on the Company's balance sheet.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2018. The following discussion is presented on a consolidated basis.

We use certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP) to assess our financial performance. For example, we evaluate the performance of our markets based on "station operating income" (operating income plus corporate general and administrative expenses, depreciation and amortization, other operating (income) expenses, and impairment of intangible assets). Station operating income is generally recognized by the broadcasting industry as a measure of performance, is used by analysts who report on the performance of the broadcasting industry and it serves as an indicator of the market value of a group of stations. In addition, we use it to evaluate individual stations, market-level performance, overall operations and as a primary measure for incentive based compensation of executives and other members of management. Station operating income is not necessarily indicative of amounts that may be available to us for debt service requirements, other commitments, reinvestment or other discretionary uses. Station operating income is not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for our results of operations presented on a GAAP basis.

General

We are a broadcast company primarily engaged in acquiring, developing and operating broadcast properties. We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. We review acquisition opportunities on an ongoing basis. For additional information with respect to acquisitions, see "Liquidity and Capital Resources" below. We own or operate broadcast properties in 27 markets, including 79 FM and 34 AM radio stations.

Radio Stations

Our radio stations' primary source of revenue is from the sale of advertising for broadcast on our stations. Depending on the format of a particular radio station, there are a predetermined number of advertisements available to be broadcast each hour. We have twenty-seven radio station markets, which include all 113 of our radio stations. The discussion of our operating performance focuses on operating income because we manage our stations primarily on operating income. Operating performance is evaluated for each individual market.

Most advertising contracts are short-term and generally run for a few weeks only. The majority of our revenue is generated from local advertising, which is sold primarily by each radio markets' sales staff. For the six months ended June 30, 2019 and 2018, approximately 89% and 87%, respectively, of our radio stations' gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representative firms that specialize in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a decrease in political advertising for 2019 due to the decreased number of national, state and local elections in most of our markets as compared to the prior year.

Our net operating revenue, station operating expense and operating income varies from market to market based upon the market's rank or size which is based upon population and the available radio advertising revenue in that particular market.

The broadcasting industry, and advertising in general, are influenced by the state of the overall economy, including unemployment rates, inflation, energy prices and consumer interest rates. Our stations primarily broadcast in small to midsize markets. Historically, these markets have been more stable than major metropolitan markets during downturns in advertising spending, but may not experience increases in such spending as significant as those in major metropolitan markets in periods of economic improvement.

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers. In a number of our markets this is measured by periodic reports generated by independent national rating services. In the remainder of our markets it is measured by the results advertisers obtain through the actual running of an advertising schedule. Advertisers measure these results based on increased demand for their goods or services and/or actual revenues generated from such demand. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming, local market competition, target marketing capability of radio compared to other advertising media and signal strength.

When we acquire and/or begin to operate a station or group of stations we generally increase programming and advertising and promotion expenses to increase our share of our target demographic audience. Our strategy sometimes requires levels of spending commensurate with the revenue levels we plan on achieving in two to five years. During periods of economic downturns, or when the level of advertising spending is flat or down across the industry, this strategy may result in the appearance that our cost of operations are increasing at a faster rate than our growth in revenues, until such time as we achieve our targeted levels of revenue for the acquired station or group of stations.

The number of advertisements that can be broadcast without jeopardizing listening levels (and the resulting ratings) is limited in part by the format of a particular radio station. Our stations strive to maximize revenue by constantly managing the number of commercials available for sale and adjusting prices based upon local market conditions and ratings. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year. Any change in our revenue, with the exception of those instances where stations are acquired or sold, is generally the result of inventory sell out ratios and pricing adjustments, which are made to ensure that the station efficiently utilizes available inventory.

Our radio stations employ a variety of programming formats. We periodically perform market research, including music evaluations, focus groups and strategic vulnerability studies. Because reaching a large and demographically attractive audience is crucial to a station's financial success, we endeavor to develop strong listener loyalty. Our stations also employ audience promotions to further develop and secure a loyal following. We believe that the diversification of formats on our radio stations helps to insulate us from the effects of changes in musical tastes of the public on any particular format.

The primary operating expenses involved in owning and operating radio stations are employee salaries, sales commissions, programming expenses, depreciation, and advertising and promotion expenses.

The radio broadcasting industry is subject to rapid technological change, evolving industry standards and the emergence of new media technologies and services. These new technologies and media are gaining advertising share against radio and other traditional media.

We are continuing to expand our digital initiative to provide a seamless experience across multiple platforms. Our goal is to allow our listeners to connect with our brands on demand, wherever, however and whenever they choose. We continue to create opportunities through targeted digital advertising and an array of digital services that include online promotions, mobile messaging, and email marketing.

During the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, our Columbus, Ohio; Des Moines, Iowa; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 38%, 41%, 41%, and 41%, respectively, of our consolidated net operating revenue from continuing operations. An adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole.

The following tables describe the percentage of our consolidated net operating revenue represented by each of these markets:

	Percentage of Consolidated Net Operating Revenue for the Six Months Ended June 30,		**Percentage of Consolidated Net Operating Revenue for the Years Ended December 31,**	
	2019	**2018**	**2018**	**2017**
Market:				
Columbus, Ohio	10%	11%	11%	11%
Des Moines, Iowa	6%	7%	7%	7%
Manchester, New Hampshire	5%	5%	5%	5%
Milwaukee, Wisconsin	11%	12%	12%	12%
Norfolk, Virginia	6%	6%	6%	6%

During the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, the radio stations in our five largest markets when combined, represented approximately 45%, 49%, 48%, and 48%, respectively, of our consolidated station operating income from continuing operations. The following tables describe the percentage of our consolidated station operating income represented by each of these markets:

	Percentage of Consolidated Station Operating Income (*) for the Six Months Ended June 30,		**Percentage of Consolidated Station Operating Income (*) for the Years Ended December 31,**	
	2019	**2018**	**2018**	**2017**
Market:				
Columbus, Ohio	15%	16%	16%	15%
Des Moines, Iowa	6%	6%	6%	7%
Manchester, New Hampshire	5%	6%	6%	6%
Milwaukee, Wisconsin	13%	15%	14%	14%
Norfolk, Virginia	6%	6%	6%	6%

* Operating income plus corporate general and administrative expenses, depreciation and amortization, other operating (income) expenses, and impairment of intangible assets.

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Results of Operations

The following tables summarize our results of operations for the three months ended June 30, 2019 and 2018.

Consolidated Results of Operations

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 32,191	$ 32,234	$ (43)	(0.1)%
Station operating expense	22,879	23,140	(261)	(1.1)%
Corporate general and administrative	2,706	2,848	(142)	(5.0)%
Other operating (income) expense, net	(2)	213	(215)	N/M
Operating income	6,608	6,033	575	9.5%
Interest expense	184	255	(71)	(27.8)%
Interest income	(160)	(188)	28	14.9%
Income before income tax expense	6,584	5,966	618	10.4%
Income tax expense	1,850	1,795	55	3.1%
Net income	$ 4,734	$ 4,171	$ 563	13.5%
Earnings per share (diluted)	$ .80	$ .70	$ .10	14.3%

N/M = Not Meaningful

For the three months ended June 30, 2019, consolidated net operating revenue was $32,191,000 compared with $32,234,000 for the three months ended June 30, 2018, a decrease of $43,000 or less than 1%. We had an increase of approximately $1,102,000 that was attributable to stations that we did not own or operate for the entire comparable period, offset by a decrease of approximately $1,145,000 generated by stations we owned or operated for the comparable period in 2018 (“same station”). On a same station basis gross national revenue, gross local revenue and gross political revenue decreased $891,000, $354,000 and $315,000 respectively. This was partially offset by an increase in gross barter revenue and gross non-spot revenue of $167,000 and $99,000 respectively, and a decrease in agency commissions of $103,000 from the second quarter of 2018. The decrease in gross national revenue was due to decreases in our Champaign, Illinois; Charleston, South Carolina; Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin and Norfolk, Virginia markets. The decrease in gross local revenue was due to decreases in our Champaign, Illinois; Columbus, Ohio and Des Moines, Iowa markets. The decrease in gross political revenue was attributable to fewer local and state elections in 2019 versus 2018 with the majority of the decrease coming from our Milwaukee, Wisconsin market. The increase in gross barter revenue was due to increases in our Charleston, South Carolina; Portland, Maine and Springfield, Illinois markets. The increase in gross non-spot revenue was due to increases in our Asheville, North Carolina; Hilton Head, South Carolina; and Ithaca, New York markets. The decrease in agency commissions was due to lower local agency revenues.

Station operating expense was $21,968,000 for the three months ended June 30, 2019, compared with $23,140,000 for the three months ended June 30, 2018, a decrease of $261,000 or 1.1%. We had an increase of approximately $911,000 that was attributable to stations that we did not own or operate for the entire comparable period, offset by a decrease of approximately $1,172,000 generated by stations we owned or operated for the comparable period in 2018. The decrease is primarily attributable to decreases in our health insurance costs, commission expense and compensation related expenses of $474,000, $369,000 and $303,000 respectively, from the second quarter of 2018.

Operating income for the three months ended June 30, 2019 was $6,608,000 compared to $6,033,000 for the three months ended June 30, 2018, an increase of $575,000 or 9.5%. The increase was a result of the decrease in station operating expense partially offset by a decrease in net operating revenue, described above, a decrease in our corporate general and administrative expenses of $142,000 or 5.0%, and a decrease in other operating expense of $215,000 from the second quarter of 2018 due to prior year losses on the sale and disposal of fixed assets compared to a minor gain on the sale of fixed assets in 2019. The decrease in our corporate general and administrative expenses was primarily attributable to a decrease of $60,000 in healthcare costs and a decrease of $53,000 in our split dollar life insurance expenses.

We generated net income of $4,734,000 ($.80 per share on a fully diluted basis) during the three months ended June 30, 2019, compared to $4,171,000 ($.70 per share on a fully diluted basis) for the three months ended June 30, 2018, an increase of $563,000 or 13.5%. This is a direct result of the increase in operating income of $575,000, described above, a decrease in interest expense of $71,000, partially offset by an increase in income taxes of $55,000, and a decrease in interest income of $28,000. The decrease in our interest rates is due to the decrease in our debt outstanding.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Results of Operations

The following tables summarize our results of operations for the six months ended June 30, 2019 and 2018.

Consolidated Results of Operations

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 60,007	$ 60,243	$ (236)	(0.4)%
Station operating expense	46,042	46,537	(495)	(1.1)%
Corporate general and administrative	5,391	5,392	(1)	(0.0)%
Other operating expense (income), net	1	(38)	39	N/M
Operating income	8,573	8,352	221	2.7%
Interest expense	392	474	(82)	(17.3)%
Interest income	(323)	(277)	(46)	16.6%
Income before income tax expense	8,504	8,155	349	4.3%
Income tax provision	2,400	2,455	(55)	(2.2)%
Net income	$ 6,104	$ 5,700	$ 404	7.1%
Earnings per share (diluted)	$ 1.03	$ .96	$ .07	7.3%

For the six months ended June 30, 2019, consolidated net operating revenue was $60,007,000 compared with $60,243,000 for the six months ended June 30, 2018, a decrease of $236,000 or less than 1%. We had an increase of approximately $2,087,000 that was attributable to stations that we did not own or operate for the entire comparable period, offset by a decrease of approximately $2,323,000 generated by stations we owned or operated for the comparable period in 2018 ("same station"). On a same station basis gross national revenue, gross local revenue and gross political revenue decreased $1,554,000, $901,000 and $528,000 respectively. This was partially offset by an increase in gross non-spot revenue of $439,000 and a decrease in agency commissions of $191,000 from 2018. The decrease in gross national revenue was due to decreases in our Champaign, Illinois; Charleston, South Carolina; Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin and Norfolk, Virginia markets. The decrease in gross local revenue was due to decreases in our Champaign, Illinois; Columbus, Ohio and Des Moines, Iowa markets. The decrease in gross political revenue was attributable to fewer local and state elections in 2019 versus 2018 with the majority of the decrease coming from our Milwaukee, Wisconsin market. The increase in gross non-spot revenue was due to increases in our Charleston, South Carolina; Hilton Head, South Carolina; Ithaca, New York; and Jonesboro, Arkansas markets. The decrease in agency commissions was due to lower local agency revenues.

Station operating expense was $46,042,000 for the six months ended June 30, 2019, compared with $46,537,000 for the six months ended June 30, 2018, a decrease of $495,000 or 1.1%. We had an increase of approximately $1,777,000 that was attributable to stations that we did not own or operate for the entire comparable period, offset by a decrease of approximately $2,272,000 or 4.9% generated by stations we owned or operated for the comparable period in 2018. The decrease is primarily attributable to decreases in our health insurance costs, commission expense, compensation related expenses and property insurance costs of $712,000, $615,000, $443,000 and $146,000 respectively, from 2018.

Operating income for the six months ended June 30, 2019 was $8,573,000 compared to $8,352,000 for the six months ended June 30, 2018, an increase of $221,000 or 2.7%. The increase was a result of the decrease in station operating expense partially offset by a decrease in net operating revenue, described above, and an increase in other operating expenses of $39,000 due to a net gain on the sale of fixed assets in prior year. Corporate general and administrative expenses remained relatively flat compared to 2018.

We generated net income of $6,104,000 ($1.03 per share on a fully diluted basis) during the six months ended June 30, 2019, compared to $5,700,000 ($.96 per share on a fully diluted basis) for the six months ended June 30, 2018, an increase of $404,000 or 7.1%. This is a direct result of the increase in operating income of $221,000, described above, a decrease in income taxes of $55,000, a decrease in interest expense of $82,000, and an increase in interest income of $46,000. The decrease in our interest rates is due to the decrease in our debt outstanding.

Forward-Looking Statements

Statements contained in this Form 10-Q that are not historical facts are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as “believes,” “anticipates,” “estimates,” “plans,” “expects,” and similar expressions are intended to identify forward-looking statements. These statements are made as of the date of this report or as otherwise indicated, based on current expectations. We undertake no obligation to update this information. A number of important factors could cause our actual results for 2019 and beyond to differ materially from those expressed in any forward-looking statements made by us or on our behalf. Forward-looking statements are not guarantees of future performance as they involve a number of risks, uncertainties and assumptions that may prove to be incorrect and that may cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks, uncertainties and assumptions that may affect our performance include our financial leverage and debt service requirements, dependence on key personnel, dependence on key stations, U.S. and local economic conditions, our ability to successfully integrate acquired stations, regulatory requirements, new technologies, natural disasters and terrorist attacks. We cannot be sure that we will be able to anticipate or respond timely to changes in any of these factors, which could adversely affect the operating results in one or more fiscal quarters. Results of operations in any past period should not be considered, in and of itself, indicative of the results to be expected for future periods. Fluctuations in operating results may also result in fluctuations in the price of our stock.

For a more complete description of the prominent risks and uncertainties inherent in our business, see Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018.

Liquidity and Capital Resources

Debt Arrangements and Debt Service Requirements

On August 18, 2015, we entered into a new credit facility (the “Credit Facility”) with JPMorgan Chase Bank, N.A., The Huntington National Bank, Citizens Bank, National Association and J.P. Morgan Securities LLC. In connection with the execution of the Credit Facility, the credit agreement in place at June 30, 2015 (the “Old Credit Agreement”) was terminated, and all outstanding amounts were paid in full. The Credit Facility consists of a $100 million five-year revolving facility (the “Revolving Credit Facility”) and originally matured on August 18, 2020. On June 27, 2018, the Company entered into a Second Amendment to its Credit Facility, dated August 18, 2015, which had previously been amended on September 1, 2017, extending the revolving credit maturity date under the Credit Agreement for five years after the date of the amendment to June 27, 2023.

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

Approximately $266,000 of transaction fees related to the Credit Facility were capitalized and are being amortized over the life of the Credit Facility. Those deferred debt costs are included in other assets, net in the condensed consolidated balance sheets. As a result of the Second Amendment, the Company incurred an additional $120,000 of transaction fees related to the Credit Facility that were capitalized. The cumulative transaction fees are being amortized over the remaining life of the Credit Facility.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (2.4375% at June 30, 2019), plus 1% to 2% or the base rate plus 0% to 1%. The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. Letters of credit issued under the Credit Facility will be subject to a participation fee (which is equal to the interest rate applicable to Eurocurrency Loans, as defined in the Credit Agreement) payable to each of the Lenders and a fronting fee equal to 0.25% per annum payable to the issuing bank. We also pay quarterly commitment fees of 0.2% to 0.3% per annum on the unused portion of the Revolving Credit Facility.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at June 30, 2019) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

On June 7, 2019, we used $5,000,000 from funds generated by operations to voluntarily pay down a portion of our Revolving Credit Facility.

On February 4, 2019, we used $5,000,000 from funds generated by operations to voluntarily pay down a portion of our Revolving Credit Facility which is presented in current portion of long-term debt on our balance sheet at December 31, 2018.

On September 4, 2018, we used $5,000,000 from funds generated by operations to pay down a portion of our Revolving Credit Facility.

We had approximately $90 million of unused borrowing capacity under the Revolving Credit Facility at June 30, 2019.

On July 1, 2019, we elected to reduce our Revolving Credit Facility to $70 million. As a result, we had approximately $60 million of unused borrowing capacity at July 1, 2019.

Sources and Uses of Cash

During the six months ended June 30, 2019 and 2018, we had net cash flows from operating activities of $12,830,000 and $13,193,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest and payments of principal under our Credit Facility. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

In March 2013, our board of directors authorized an increase to our Stock Buy-Back Program to allow us to purchase up to $75.8 million of our Class A Common Stock. From its inception in 1998 through June 30, 2019, we have repurchased 2.1 million shares of our Class A Common Stock for $55.7 million. During the three and six months ended June 30, 2019, approximately 8,600 and 11,100 shares, respectively, were repurchased for $247,000 and $327,000 respectively, related to the Stock Buy-Back Program.

Our capital expenditures, exclusive of acquisitions, for the six months ended June 30, 2019 were $3,162,000 ($2,906,000 in 2018). We anticipate capital expenditures in 2019 to be approximately $5.0 – $5.5 million, which we expect to finance through funds generated from operations.

On January 9, 2019, the Company closed on an agreement to purchase WFAT and W222CH from County Broadcasting Company, LLC for an aggregate purchase price of $210 thousand using funds generated from operations. Management attributes the goodwill recognized in the acquisition to the power of the existing brands in the Greenfield, Massachusetts market as well as synergies and growth opportunities expected through the combination with the Company's existing stations.

On October 29, 2018, the Company entered into an agreement to purchase WOGK-FM, WNDT-FM, WNDD-FM and WNDN-FM, from Ocala Broadcasting Corporation. The Company closed this transaction effective December 31, 2018 using funds generated from operations of $9.84 million, which included the purchase price of $9.3 million, the purchase of $566 thousand in accounts receivable by certain closing adjustments and transactional costs of approximately $25 thousand, of which $552 thousand was paid in January 2019.

On May 30, 2019, the Company's Board of Directors declared a regular cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million, was paid on July 5, 2019 to shareholders of record on June 14, 2019 and funded by cash on the Company's balance sheet.

On February 26, 2019, the Company's Board of Directors declared a regular cash dividend of $0.30 per share on its Classes A and B Common Stock. This dividend, totaling approximately $1.8 million, was paid on March 29, 2019 to shareholders of record on March 12, 2019 and funded by cash on the Company's balance sheet.

On November 28, 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.30 per share and a special cash dividend of $0.25 per share on its Classes A and B shares. This dividend totaling approximately $3.3 million was paid on January 4, 2019 to shareholders of record on December 10, 2018 and funded by cash on the Company's balance sheet.

On February 4, 2019, the Company used $5,000,000 from funds generated by operations to voluntarily pay down a portion of its Revolving Credit Facility which is presented in current portion of long-term debt on our balance sheet at December 31, 2018.

On June 7, 2019, the Company used $5,000,000 from funds generated by operations to voluntarily pay down a portion of its Revolving Credit Facility.

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

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

Summary Disclosures About Contractual Obligations and Commercial Commitments

We have future cash obligations under various types of contracts, including the terms of our Credit Facility, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation — Summary Disclosures About Contractual Obligations” in our Annual Report on Form 10-K for the year ended December 31, 2018.

We anticipate that our contractual cash obligations will be financed through funds generated from operations or additional borrowings under the Credit Facility, or a combination thereof.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There have been no significant changes to our critical accounting policies that are described in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in Note 2 to the accompanying financial statements.

Inflation

The impact of inflation on our operations has not been significant to date. There can be no assurance that a high rate of inflation in the future would not have an adverse effect on our operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk and Risk Management Policies” in our Annual Report on Form 10-K for the year ended December 31, 2018 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2018 Annual Report on Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause the material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There were no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various outstanding claims which arise in the ordinary course of business and to other legal proceedings. Management anticipates that any potential liability of the Company, which may arise out of or with respect to these matters, will not materially affect the Company's financial statements.

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

The following table summarizes our repurchases of our Class A Common Stock during the three months ended June 30, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program(a)
April 1 – April 30, 2019	—	$ —	—	$ 20,326,859
May 1 – May 31, 2019	2,720	$ 28.53	2,720	$ 20,249,256
June 1 – June 30, 2019	5,882	$ 28.80	5,882	$ 20,079,838
Total	8,602	$ 28.72	8,602	$ 20,079,838

(a) We have a Stock Buy-Back Program which allows us to purchase our Class A Common Stock. In February 2013, our Board of Directors authorized an increase in the amount committed to the Stock Buy-Back Program from $60 million to approximately $75.8 million.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SAGA COMMUNICATIONS, INC.
Date: August 9, 2019	/s/ SAMUEL D. BUSH
	Samuel D. Bush *Senior Vice President and Chief Financial Officer (Principal Financial Officer)*
Date: August 9, 2019	/s/ CATHERINE A. BOBINSKI
	Catherine A. Bobinski *Senior Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)*

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS AMENDED

I, Edward K. Christian, Chief Executive Officer of Saga Communications, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Saga Communications, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Edward K. Christian
Edward K. Christian
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS AMENDED

I, Samuel D. Bush, Chief Financial Officer of Saga Communications, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Saga Communications, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Samuel D. Bush
Samuel D. Bush
Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Saga Communications, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Edward K. Christian, Chief Executive Officer of the Company, and Samuel D. Bush, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of our knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2019	/s/ Edward K. Christian Edward K. Christian Chief Executive Officer
Dated: August 9, 2019	/s/ Samuel D. Bush Samuel D. Bush Chief Financial Officer