



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended September 30, 2005

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**

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

**38-3042953**

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

**73 Kercheval Avenue**

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

**48236**

*(Zip Code)*

**(313) 886-7070**

*(Registrant's telephone number, including area code)*

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

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

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

The number of shares of the registrant's Class A Common Stock, \$.01 par value, and Class B Common Stock, \$.01 par value, outstanding as of October 31, 2005 was 18,098,930 and 2,360,370, respectively.

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## PART I — FINANCIAL INFORMATION

**Item 1. Financial Statements**

**SAGA COMMUNICATIONS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2005 (Unaudited)	December 31, 2004 (Note)
	(In thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 14,444	\$ 9,113
Accounts receivable, net	23,389	23,692
Prepaid expenses and other current assets	5,757	4,819
Total current assets	43,590	37,624
Property and equipment	140,757	133,493
Less accumulated depreciation	67,780	67,129
Net property and equipment	72,977	66,364
Other assets:		
Broadcast licenses, net	149,024	130,110
Goodwill, net	49,565	37,133
Other intangibles, deferred costs and investments, net	7,391	8,923
Total other assets	205,980	176,166
	<u>\$ 322,547</u>	<u>\$ 280,154</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,618	\$ 2,128
Accrued payroll and payroll taxes	6,104	7,066
Other accrued expenses	3,669	4,971
Barter transactions	2,192	1,681
Current portion of long-term debt	8,061	—
Total current liabilities	21,644	15,846
Deferred income taxes	26,187	23,083
Long-term debt, less current portion	147,850	121,161
Other	3,096	2,839
<b>Stockholders' equity:</b>		
Common stock	212	211
Additional paid-in capital	48,583	48,387
Retained earnings	86,796	78,119
Accumulated other comprehensive income	—	60
Treasury stock	(11,060)	(9,552)
Unearned compensation on restricted stock	(761)	—
Total stockholders' equity	123,770	117,225
	<u>\$ 322,547</u>	<u>\$ 280,154</u>

Note: The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to unaudited condensed consolidated financial statements.

**SAGA COMMUNICATIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands, except per share data) (Unaudited)			
Net operating revenue	\$ 35,961	\$ 34,262	\$ 105,345	\$ 98,562
Station operating expense	26,110	24,006	77,464	69,924
Corporate general and administrative	1,934	1,927	6,060	5,938
Operating income	7,917	8,329	21,821	22,700
Other expense, net:				
Interest expense	2,082	1,036	5,511	3,216
Other (income) expense	(35)	210	1,503	283
Income before income tax	5,870	7,083	14,807	19,201
Income tax provision	2,430	2,765	6,130	7,491
Net income	\$ 3,440	\$ 4,318	\$ 8,677	\$ 11,710
Earnings per share:				
Basic	\$ .17	\$ .21	\$ .42	\$ .56
Diluted	\$ .17	\$ .20	\$ .42	\$ .55
Weighted average common shares	20,453	20,750	20,489	20,792
Weighted average common and common equivalent shares	20,631	21,116	20,726	21,227

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2005	2004
	(In thousands) (Unaudited)	
<b>Cash flows from operating activities:</b>		
Cash provided by operating activities	\$ 19,012	\$ 22,073
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(9,054)	(8,249)
Proceeds from sale of assets	367	741
Increase in intangibles and other assets	(936)	(903)
Acquisition of stations and radio networks	(31,577)	(13,607)
Net cash used in investing activities	(41,200)	(22,018)
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	34,750	—
Payments on long-term debt	—	(45)
Purchase of shares held in treasury	(7,433)	(4,533)
Net proceeds from exercise of stock options	202	944
Net cash provided by (used in) financing activities	27,519	(3,634)
Net increase (decrease) in cash and cash equivalents	5,331	(3,579)
Cash and cash equivalents, beginning of period	9,113	11,766
Cash and cash equivalents, end of period	<u>\$ 14,444</u>	<u>\$ 8,187</u>

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 normal, recurring nature considered necessary for a fair presentation of our financial position as of September 30, 2005 and the results of operations for the three and nine months ended September 30, 2005 and 2004. Results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

For further information, refer to the consolidated financial statements and notes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2004.

***Income Taxes***

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

***Time Brokerage Agreements***

We have entered into Time Brokerage Agreements ("TBAs") in certain markets. In a typical TBA, the Federal Communications Commission ("FCC") licensee of a station makes available, for a fee, blocks of air time on its station to another party that supplies programming to be broadcast during that air time and sells their own commercial advertising announcements during the time periods specified. We account for TBA's under SFAS 13, "Accounting for Leases" and related interpretations. Revenue and expenses related to TBAs are included in the accompanying Condensed Consolidated Statements of Income.

***Stock-Based Compensation***

We follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, in accounting for our employee and non-employee director stock options. Under APB 25, when the exercise price of our employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

For purposes of the required pro forma disclosures for stock-based compensation, the estimated fair value of the options are amortized to expense over the options' vesting period. Proforma net income and pro forma earnings per share as if the stock-based awards had been accounted for using the provisions of Statement of

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation” is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands, except per share data)			
Net income, as reported	\$ 3,440	\$ 4,318	\$ 8,677	\$ 11,710
Add back: stock based compensation cost, net of tax	25	12	56	38
Less: pro forma stock based compensation cost determined under fair value method, net of tax	(463)	(495)	(1,387)	(1,512)
Pro forma net income	<u>\$ 3,002</u>	<u>\$ 3,835</u>	<u>\$ 7,346</u>	<u>\$ 10,236</u>
Pro forma earnings per share:				
Basic	<u>\$ .15</u>	<u>\$ .18</u>	<u>\$ .36</u>	<u>\$ .49</u>
Diluted	<u>\$ .15</u>	<u>\$ .18</u>	<u>\$ .35</u>	<u>\$ .48</u>

The fair value of our stock options were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the nine months ended September 30, 2005 and 2004: risk-free interest rate of 4.0% and 3.7%; a dividend yield of 0%; expected volatility of 30.1% and 31.1%; and a weighted average expected life of the options of 7 years, respectively.

**2. Recent Accounting Pronouncements**

On March 30, 2005, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (“FIN 47”). FIN 47 is an interpretation of FASB Statement 143, Asset Retirement Obligations, which was issued in June 2001. According to FIN 47, uncertainty about the timing and (or) method of settlement because they are conditional on a future event that may or may not be within the control of the entity should be factored into the measurement of the asset retirement obligation when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We do not expect the adoption of this pronouncement to have a material impact, if any, on our results of operations and financial position.

On December 16, 2004 the FASB issued SFAS No. 123(R) “Share-Based Payment” (“SFAS 123(R)”), which significantly changes the accounting for all share-based payments to employees, including grants of employee stock options, restricted share plans, performance based awards, stock appreciation rights, and employee stock purchase plans. SFAS 123(R) will require us to recognize in our financial statements compensation expense relating to share-based payment transactions using a fair-value based measurement method. SFAS 123(R) replaces SFAS 123 and supersedes APB 25 and is effective for fiscal periods beginning after December 31, 2005. We are currently evaluating the provisions of this pronouncement to determine the impact on our results of operations and financial position.

On September 29, 2004, the Securities and Exchange Commission Staff (“SEC”) made an announcement regarding the Use of the Residual Method to Value Acquired Assets Other than Goodwill (“Topic D-108”). The SEC concluded that the use of the residual method does not comply with the requirements of FASB Statement No. 141 — Business Combinations, and accordingly, should no longer be used. Instead, a direct value method should be used to determine the fair value of all intangible assets required to be recognized under Statement 141. For companies that have applied the residual value method to the valuation of intangible assets, including the use of the residual value method to test impairment of indefinite-

## SAGA COMMUNICATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

lived intangible assets, Topic D-108 becomes effective in fiscal years beginning after December 15, 2004. Impairments of intangible assets recognized upon application of a direct value method by entities previously applying the residual method will be reported as a non-cash charge related to the cumulative effect of a change in accounting principle. We are currently evaluating the provisions of this Staff Announcement to determine the impact, if any, on our results of operations and financial position.

### 3. Intangible Assets and Goodwill

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

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

- The radio and television broadcasting licenses may be renewed indefinitely at little cost.
- The radio and television broadcasting licenses are essential to our business, and we intend to renew our licenses indefinitely.
- We have never been denied the renewal of a FCC broadcast license.
- We do not believe that there will be any compelling challenge to the renewal of our broadcast licenses.
- We do not believe that the technology used in broadcasting will be replaced by another technology in the foreseeable future.

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

Separable intangible assets that have finite lives are amortized over their useful lives using the straight-line method. Favorable lease agreements are amortized over the lives of the leases. Other intangibles are amortized over five to forty years.

### 4. Common Stock and Treasury Stock

The following summarizes information relating to the number of shares of our common stock involved in stock transactions through September 30, 2005:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2004	18,592	2,360
Exercised options	107	—
Balance, December 31, 2004	18,699	2,360
Exercised options	35	—
Issuance of restricted stock	61	—
Balance, September 30, 2005	18,795	2,360

We have a Stock Buy-Back Program (the “Buy-Back Program”) to allow us to purchase up to \$30,000,000 of our Class A Common Stock. From its inception in 1998 through September 30, 2005, we have repurchased 1,473,689 shares of our Class A Common Stock for approximately \$22,600,000.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Total Comprehensive Income and Accumulated Other Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands)			
<b>Total Comprehensive Income Consists of:</b>				
Net income	\$ 3,440	\$ 4,318	\$ 8,677	\$ 11,710
Accumulated other comprehensive income (loss):				
Change in market value of securities, net of tax	—	1	2	13
Gain realized on sale of securities, net of tax	—	—	(62)	—
Total comprehensive income	<u>\$ 3,440</u>	<u>\$ 4,319</u>	<u>\$ 8,617</u>	<u>\$ 11,723</u>
<b>Accumulated comprehensive income consists of marketable securities as follows</b>				
<b>(in thousands):</b>				
Balance at January 1, 2004				\$ 29
Change in market value of securities, net of \$19 taxes				31
Balance at December 31, 2004				60
Change in market value of securities, net of \$1 taxes				2
Gain realized on the sale of securities, net of \$35 taxes				(62)
Balance at September 30, 2005				<u>\$ —</u>

6. Acquisitions and Dispositions

We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. This activity is part of our strategy to be the leading broadcaster in the markets where we own properties. The consolidated statements of income include the operating results of the acquired stations from their respective dates of acquisition. All acquisitions were accounted for as purchases and, accordingly, the total costs were allocated to the acquired assets and assumed liabilities based on their estimated fair values as of the acquisition dates. The excess of consideration paid over the estimated fair value of net assets acquired have been recorded as goodwill.

*Pending Acquisitions and Dispositions*

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

*2005 Acquisitions*

Effective June 1, 2005, we acquired two FM and two AM radio stations (WQNY-FM, WYXL-FM, WNYX-AM and WHCU-AM) serving the Ithaca, New York market, for approximately \$13,600,000, including approximately \$2,602,000 of our Class A common stock. We financed this transaction through funds generated from operations and additional borrowings of approximately \$11,000,000 under our Credit Agreement.

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

## SAGA COMMUNICATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Effective January 1, 2005, we acquired one AM radio station (WISE-AM) serving the Asheville, North Carolina market for approximately \$2,192,000. We have provided programming to this station under a TBA since November 1, 2002.

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

**2004 Acquisitions and Dispositions**

On August 10, 2004 we sold an AM radio station (WJQY-AM) serving the Springfield, Tennessee market for approximately \$150,000. We recognized a loss on the disposal of this station of approximately \$10,000.

On July 1, 2004, we acquired an FM radio station (WXTT-FM) serving the Champaign, Illinois market, for approximately \$3,272,000.

On April 1, 2004 we acquired three FM radio stations (WRSI-FM, Turners Falls, Massachusetts, WPVQ-FM, Greenfield, Massachusetts and WRSY-FM, Marlboro, Vermont) serving the Springfield, Massachusetts, Greenfield, Massachusetts and Brattleboro, Vermont markets, respectively, for approximately \$7,220,000.

On March 1, 2004, we acquired the Minnesota News Network and the Minnesota Farm Network for approximately \$3,443,000.

**Condensed Consolidated Balance Sheet of 2005 and 2004 Acquisitions:**

The following condensed balance sheets represent the estimated fair value assigned to the related assets and liabilities of the 2005 and 2004 acquisitions at their respective acquisition dates. In connection with the 2005 acquisitions, we issued Class A common stock of approximately \$4,588,000.

## Saga Communications, Inc.

## Condensed Consolidated Balance Sheet of 2005 and 2004 Acquisitions

	Acquisitions in	
	2005	2004
	(In thousands)	
<b>Assets Acquired:</b>		
Current assets	\$ 2,541	\$ 650
Property and equipment	4,862	848
Other assets:		
Broadcast licenses-Radio segment	18,757	6,453
Broadcast licenses-TV segment	157	—
Goodwill-Radio segment	12,365	6,294
Goodwill-TV segment	68	—
Other intangibles, deferred costs and investments	117	114
Total other assets	31,464	12,861
Total assets acquired	38,867	14,359
<b>Liabilities Assumed:</b>		
Current liabilities	2,702	748
Total liabilities assumed	2,702	748
Net assets acquired	\$ 36,165	\$ 13,611

## SAGA COMMUNICATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

The following unaudited pro forma results of our operations for the three and nine months ended September 30, 2005 and 2004 assume the 2005 and 2004 acquisitions occurred as of January 1, 2004. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(In thousands, except per share data)				
<b>Consolidated Results of Operations</b>				
Net operating revenue	\$ 35,961	\$ 36,071	\$ 106,358	\$ 104,698
Station operating expense	26,110	25,506	78,421	75,215
Corporate general and administrative	1,934	1,927	6,060	5,938
Operating income	7,917	8,638	21,877	23,545
Interest expense	2,082	1,369	5,731	4,215
Other expense, net	(35)	202	1,488	258
Income taxes	2,430	2,759	6,073	7,449
Net income	\$ 3,440	\$ 4,308	\$ 8,585	\$ 11,623
Basic earnings per share	\$ .17	\$ .20	\$ .42	\$ .55
Diluted earnings per share	\$ .17	\$ .20	\$ .41	\$ .54

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(In thousands)				
<b>Radio Broadcasting Segment</b>				
Net operating revenue	\$ 32,263	\$ 32,425	\$ 95,253	\$ 94,133
Station operating expense	22,728	22,281	68,410	65,690
Operating income	\$ 9,535	\$ 10,144	\$ 26,843	\$ 28,443

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(In thousands)				
<b>Television Broadcasting Segment</b>				
Net operating revenue	\$ 3,698	\$ 3,646	\$ 11,105	\$ 10,565
Station operating expense	3,382	3,225	10,011	9,525
Operating income	\$ 316	\$ 421	\$ 1,094	\$ 1,040

## SAGA COMMUNICATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Three Months Ended September 30, 2005:</b>				
Net operating revenue	\$ 32,263	\$ 3,698	\$ —	\$ 35,961
Station operating expense	22,728	3,382	—	26,110
Corporate general and administrative	—	—	\$ 1,934	1,934
Operating income	<u>\$ 9,535</u>	<u>\$ 316</u>	<u>\$ (1,934)</u>	<u>\$ 7,917</u>

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

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Three Months Ended September 30, 2004:</b>				
Net operating revenue	\$ 32,425	\$ 3,646	\$ —	\$ 36,071
Station operating expense	22,281	3,225	—	25,506
Corporate general and administrative	—	—	\$ 1,927	1,927
Operating income	<u>\$ 10,144</u>	<u>\$ 421</u>	<u>\$ (1,927)</u>	<u>\$ 8,638</u>

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Nine Months Ended September 30, 2005:</b>				
Net operating revenue	\$ 95,253	\$ 11,105	\$ —	\$ 106,358
Station operating expense	68,410	10,011	—	78,421
Corporate general and administrative	—	—	\$ 6,060	6,060
Operating income	<u>\$ 26,843</u>	<u>\$ 1,094</u>	<u>\$ (6,060)</u>	<u>\$ 21,877</u>

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Nine Months Ended September 30, 2004:</b>				
Net operating revenue	\$ 94,133	\$ 10,565	\$ —	\$ 104,698
Station operating expense	65,690	9,525	—	75,215
Corporate general and administrative	—	—	\$ 5,938	5,938
Operating income	<u>\$ 28,443</u>	<u>\$ 1,040</u>	<u>\$ (5,938)</u>	<u>\$ 23,545</u>

**7. Segment Information**

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

The Radio segment includes twenty-three markets, which includes all eighty-six of our radio stations and five radio information networks. The Television segment includes three markets and consists of five television stations and four low power television ("LPTV") stations. The Radio and Television segments derive their

## SAGA COMMUNICATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

revenue from the sale of commercial broadcast inventory. The category “Corporate and Other” represents the income and expense not allocated to reportable segments.

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Three Months Ended September 30, 2005:</b>				
Net operating revenue	\$ 32,263	\$ 3,698	\$ —	\$ 35,961
Station operating expense	22,728	3,382	—	26,110
Corporate general and administrative	—	—	\$ 1,934	1,934
Operating income (loss)	<u>\$ 9,535</u>	<u>\$ 316</u>	<u>\$ (1,934)</u>	<u>\$ 7,917</u>
Depreciation and amortization	<u>\$ 1,812</u>	<u>\$ 446</u>	<u>\$ 50</u>	<u>\$ 2,308</u>

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Three Months Ended September 30, 2004:</b>				
Net operating revenue	\$ 30,616	\$ 3,646	\$ —	\$ 34,262
Station operating expense	20,781	3,225	—	24,006
Corporate general and administrative	—	—	\$ 1,927	1,927
Operating income (loss)	<u>\$ 9,835</u>	<u>\$ 421</u>	<u>\$ (1,927)</u>	<u>\$ 8,329</u>
Depreciation and amortization	<u>\$ 1,361</u>	<u>\$ 422</u>	<u>\$ 49</u>	<u>\$ 1,832</u>

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Nine Months Ended September 30, 2005:</b>				
Net operating revenue	\$ 94,240	\$ 11,105	\$ —	\$ 105,345
Station operating expense	67,453	10,011	—	77,464
Corporate general and administrative	—	—	\$ 6,060	6,060
Operating income (loss)	<u>\$ 26,787</u>	<u>\$ 1,094</u>	<u>\$ (6,060)</u>	<u>\$ 21,821</u>
Depreciation and amortization	<u>\$ 5,181</u>	<u>\$ 1,310</u>	<u>\$ 149</u>	<u>\$ 6,640</u>
Total assets	<u>\$ 270,998</u>	<u>\$ 31,572</u>	<u>\$ 19,977</u>	<u>\$ 322,547</u>

	<u>Radio</u>	<u>Television</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	(In thousands)			
<b>Nine Months Ended September 30, 2004:</b>				
Net operating revenue	\$ 87,997	\$ 10,565	\$ —	\$ 98,562
Station operating expense	60,399	9,525	—	69,924
Corporate general and administrative	—	—	\$ 5,938	5,938
Operating income (loss)	<u>\$ 27,598</u>	<u>\$ 1,040</u>	<u>\$ (5,938)</u>	<u>\$ 22,700</u>
Depreciation and amortization	<u>\$ 3,913</u>	<u>\$ 1,263</u>	<u>\$ 148</u>	<u>\$ 5,324</u>
Total assets	<u>\$ 231,597</u>	<u>\$ 31,180</u>	<u>\$ 13,070</u>	<u>\$ 275,847</u>

**Item 2. Management's Discussion and Analysis of Financial Condition and 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, 2004. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are, therefore reflected only in our discussion of consolidated results.

Our discussion of the results of operations of our operating segments focuses on their operating income because we manage our operating segments primarily on their operating income. We evaluate the operating performance of our markets individually. For purposes of business segment reporting, we have aligned operations with similar characteristics into two business segments: Radio and Television. The Radio segment includes twenty-three markets, which includes all eighty-six of our radio stations and five radio information networks. The Television segment includes three markets and consists of five television stations and four LPTV stations.

**General**

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

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

**Radio Segment**

In our radio segment our primary source of revenue is from the sale of advertising for broadcast on our stations. Depending on the format of a particular radio station, there are a predetermined number of advertisements available to be broadcast each hour.

Most advertising contracts are short-term, and generally run only for a few weeks. Most of our revenue is generated from local advertising, which is sold primarily by each radio markets' sales staff. For the nine months ended September 30, 2005 and 2004, approximately 85% and 84%, respectively, of our gross radio segment revenue was from local advertising. To generate national advertising sales, we engage an independent advertising sales representative firm that specializes in national sales for each of our broadcast markets.

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.

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

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers. In a number of our markets this is measured by periodic reports generated by independent national rating services. In the remainder of our markets it is measured by the results advertisers obtain through the actual running of an advertising schedule. Advertisers measure these results based on increased demand for their goods or services and/or actual revenues generated from such demand. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming, local market competition, target marketing capability of radio compared to other advertising media and signal strength. Because reaching a large and demographically attractive audience is crucial to a station's financial success, we endeavor to develop strong listener loyalty. When we acquire and/or begin to operate a station or group of stations we generally increase programming and advertising and promotion expenses to increase our share of our target demographic audience. Our strategy sometimes requires levels of spending commensurate with the revenue levels we plan on achieving in two to five years. During periods of economic downturns, or when the level of advertising spending is flat or down across the industry, this strategy may result in the appearance that our cost of operations are increasing

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at a faster rate than our growth in revenues, until such time as we achieve our targeted levels of revenue for the acquired station or group of stations.

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

Our radio stations employ a variety of programming formats. We periodically perform market research, including music evaluations, focus groups and strategic vulnerability studies. Our stations also employ audience promotions to further develop and secure a loyal following. We believe that the diversification of formats on our radio stations helps to insulate us from the effects of changes in musical tastes of the public on any particular format.

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

Historically, our Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets have each represented 15% or more of our consolidated operating income. During the nine month periods ended September 30, 2005 and 2004 and the years ended December 31, 2004 and 2003, these markets when combined, represented approximately 73%, 75%, 73% and 81%, respectively, of our consolidated operating income. While radio revenues in each of the Columbus, Manchester, Milwaukee and Norfolk markets have remained relatively stable historically, an adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole. Our stations in the Columbus, Milwaukee and Norfolk markets have been recently subjected to increased format competition. In response to this competition in our Milwaukee market we modified the format of one of our stations and in support of this change have incurred an additional \$250,000 in advertising and promotional costs. In addition, although the financial results in our Portland, Maine stations have not historically represented 15% or more of our consolidated operating income, the financial results in our Portland stations have also been impacted by the increased format competition. To date this has not materially impacted our Columbus market's financial performance. We believe that the financial impact on the Norfolk and Milwaukee markets will not be long term as ratings data indicates that the impacted stations are beginning to return to previous levels of audience share. We believe that the financial impact on the Portland market may be long term primarily as a result of our competitors in this market decreasing rates, even though our ratings data indicates that the impacted stations are beginning to return to previous levels of audience share. None of our television markets represented more than 15% or more of our consolidated operating income. The following tables describe the percentage of our consolidated operating income represented by each of these markets:

<b>Market:</b>	<b>Percentage of Consolidated Operating Income For the Nine Months Ended September 30,</b>		<b>Percentage of Consolidated Operating Income For the Years Ended December 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
Columbus, Ohio	13%	11%	12%	17%
Manchester, New Hampshire	13%	15%	14%	15%
Milwaukee, Wisconsin	33%	33%	32%	32%
Norfolk, Virginia	14%	16%	15%	17%

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

During the nine month periods ended September 30, 2005 and 2004 and the years ended December 31, 2004 and 2003, the radio stations in our four largest markets when combined, represented approximately 50%, 52%, 52% and 58%, respectively, of our consolidated station operating income. The following tables describe the percentage of our consolidated station operating income represented by each of these markets:

<b>Market:</b>	<b>Percentage of Consolidated Station Operating Income For the Nine(*) Months Ended September 30,</b>		<b>Percentage of Consolidated Station Operating Income For the Years(*) Ended December 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
Columbus, Ohio	9%	8%	9%	12%
Manchester, New Hampshire	9%	10%	10%	11%
Milwaukee, Wisconsin	22%	23%	22%	23%
Norfolk, Virginia	10%	11%	11%	12%

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

## **Television Segment**

In our television segment, our primary source of revenue is from the sale of advertising for broadcast on our stations. The number of advertisements available for broadcast on our television stations is limited by certain network affiliation and syndicated programming agreements and, with respect to children's programs, federal regulation. Our television broadcasting segment local market managers only determine the number of advertisements to be broadcast hourly in locally produced programs which are comprised mainly of news programming and the occasional locally produced sports or information show.

Our net operating revenue, and the resulting station operating expenses, and operating income vary from market to market based upon the related market's rank or size which is based upon population, the available television advertising revenue in that particular market, and the popularity of programming being broadcast.

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers, as measured principally by periodic reports by independent national rating services. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming through locally produced news, sports and weather and as a result of syndication and network affiliation agreements, local market competition, the ability of television broadcasting to reach a mass appeal market compared to other advertising media, and signal strength including cable/satellite coverage, and government regulation and policies. Because audience ratings



**Radio Broadcasting Segment**

	Three Months Ended September 30,		\$ Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(In thousands, except percentages)			
Net operating revenue	\$ 32,263	\$ 30,616	\$ 1,647	5.4%
Station operating expense	22,728	20,781	1,947	9.4%
Operating income	\$ 9,535	\$ 9,835	\$ (300)	(3.1)%

**Television Broadcasting Segment**

	Three Months Ended September 30,		\$ Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(In thousands, except percentages)			
Net operating revenue	\$ 3,698	\$ 3,646	\$ 52	1.4%
Station operating expense	3,382	3,225	157	4.9%
Operating income	\$ 316	\$ 421	\$ (105)	(24.9)%

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

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
<b>Three Months Ended September 30, 2005:</b>				
Net operating revenue	\$ 32,263	\$ 3,698	\$ —	\$ 35,961
Station operating expense	22,728	3,382	—	26,110
Corporate general and administrative	—	—	\$ 1,934	1,934
Operating income (loss)	\$ 9,535	\$ 316	\$ (1,934)	\$ 7,917

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
<b>Three Months Ended September 30, 2004:</b>				
Net operating revenue	\$ 30,616	\$ 3,646	\$ —	\$ 34,262
Station operating expense	20,781	3,225	—	24,006
Corporate general and administrative	—	—	\$ 1,927	1,927
Operating income (loss)	\$ 9,835	\$ 421	\$ (1,927)	\$ 8,329

**Consolidated**

For the three months ended September 30, 2005, consolidated net operating revenue was \$35,961,000 compared with \$34,262,000 for the three months ended September 30, 2004, an increase of \$1,699,000 or 5%. Approximately \$1,889,000 in our radio segment or 111% of the increase was attributable to revenue generated by stations that we did not own or operate for the comparable period in 2004. Net operating revenue generated by stations that we owned and operated for the entire comparable period ("same station revenue") decreased by approximately 1% or approximately \$190,000. The decrease in same station revenue was attributable to a decrease in same station political revenue of approximately \$800,000 (net) or 93%, offset by increases in local revenue of approximately 2% and national revenue of approximately 1%.

Station operating expense increased by \$2,104,000 or 9% to \$26,110,000 for the three months ended September 30, 2005, compared with \$24,006,000 for the three months ended September 30, 2004. Of the total

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increase, approximately \$1,637,000 or 78% was the result of the operation of stations that we did not own or operate for the comparable period in 2004. Station operating expense increased by approximately \$467,000 or 2% on a same station basis which is primarily as a result of increases in programming expenses as a result of competitive pressures in several of our radio markets. We anticipate the increases in programming expenses to continue in the future.

Operating income for the three months ended September 30, 2005 was \$7,917,000 compared to \$8,329,000 for the three months ended September 30, 2004, a decrease of approximately \$412,000 or 5%. The decrease was primarily the result of the increase in net operating revenue offset by the increase in station operating expense as discussed above.

We generated net income of approximately \$3,440,000 (\$.17 per share on a fully diluted basis) during the three months ended September 30, 2005, compared with \$4,318,000 (\$.20 per share on a fully diluted basis) for the three months ended September 30, 2004, a decrease of approximately \$878,000 or 20%. The decrease was the result of the decrease in operating income discussed above, an increase in interest expense of approximately \$1,046,000 offset by a \$245,000 decrease in other expense and a \$335,000 decrease in income tax expense. The increase in interest expense was the result of interest on additional borrowings of approximately \$468,000 and higher interest rates over the prior year of approximately \$578,000. The decrease in other expense was the principally the result of losses recognized in 2004 for the disposal of broadcast properties. The decrease in income tax expense was directly attributable to the operating performance.

### ***Radio Segment***

For the three months ended September 30, 2005, net operating revenue of the radio segment was \$32,263,000 compared with \$30,616,000 for the three months ended September 30, 2004, an increase of \$1,647,000 or 5%. Approximately \$1,889,000 or 115% of the increase was attributable to revenue generated by radio stations and radio networks that we did not own or operate for the comparable period in 2004. Net operating revenue generated by radio stations and radio networks that we owned and operated for the entire comparable period decreased by approximately \$242,000 or 1%. The majority of the decrease in same station revenue was attributable to decreases in same station political revenue of approximately \$520,000 or 89%, offset by a same station local revenue increase of approximately 1%. National revenue on a same station basis was flat for the quarter.

Station operating expense in the radio segment increased by \$1,947,000 or 9% to \$22,728,000 for the three months ended September 30, 2005, compared with \$20,781,000 for the three months ended September 30, 2004. Of the total increase, approximately \$1,637,000 or 84% of the total increase in station operating expense was the result of the operation of radio stations that we did not own or operate for the comparable period in 2004. The remaining balance of the increase in station operating expense of \$310,000 represents a total increase in station operating expense of 1% on a same station basis, which is primarily a result of increases in programming expenses as a result of competitive pressures in several of our radio markets, which we anticipate to continue in the future.

Operating income in the radio segment for the three months ended September 30, 2005 was \$9,535,000 compared to \$9,835,000 for the three months ended September 30, 2004, a decrease of approximately \$300,000 or 3%. The decrease was the result of the increase in net operating revenue, offset by the increase in station operating expense.

### ***Television Segment***

For the three months ended September 30, 2005, net operating revenue of our television segment was \$3,698,000 compared with \$3,646,000 for the three months ended September 30, 2004, an increase of \$52,000 or 1%. The majority of the improvement in net operating revenue was attributable to the Fox affiliate in Joplin, Missouri that went on the air in October 2003.

Station operating expense in the television segment increased by \$157,000 or 5% to \$3,382,000 for the three months ended September 30, 2005, compared with \$3,225,000 for the three months ended Septem-



### Television Broadcasting Segment

	Nine Months Ended September 30,		\$ Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(In thousands, except percentages)			
Net operating revenue	\$ 11,105	\$ 10,565	\$ 540	5.1%
Station operating expense	10,011	9,525	486	5.1%
Operating income	<u>\$ 1,094</u>	<u>\$ 1,040</u>	<u>\$ 54</u>	<u>5.2%</u>

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

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
<b>Nine Months Ended September 30, 2005:</b>				
Net operating revenue	\$ 94,240	\$ 11,105	\$ —	\$ 105,345
Station operating expense	67,453	10,011	—	77,464
Corporate general and administrative	—	—	\$ 6,060	6,060
Operating income	<u>\$ 26,787</u>	<u>\$ 1,094</u>	<u>\$ (6,060)</u>	<u>\$ 21,821</u>

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
<b>Nine Months Ended September 30, 2004:</b>				
Net operating revenue	\$ 87,997	\$ 10,565	\$ —	\$ 98,562
Station operating expense	60,399	9,525	—	69,924
Corporate general and administrative	—	—	\$ 5,938	5,938
Operating income	<u>\$ 27,598</u>	<u>\$ 1,040</u>	<u>\$ (5,938)</u>	<u>\$ 22,700</u>

#### Consolidated

For the nine months ended September 30, 2005, consolidated net operating revenue was \$105,345,000 compared with \$98,562,000 for the nine months ended September 30, 2004, an increase of \$6,783,000 or 7%. Approximately \$5,597,000 or 83% of the increase was attributable to revenue generated by radio stations that we did not own or operate for the comparable period in 2004. Net operating revenue generated by stations that we owned and operated for the entire comparable period increased by approximately 1% or approximately \$1,186,000 (\$646,000 or 54% in our radio segment and \$540,000 or 46% in our television segment). The majority of the improvement in same station revenue was attributable to same station local revenue increases of approximately 3%, while our same station political revenue decreased by approximately 86%.

Station operating expense increased by \$7,540,000 or 11% to \$77,464,000 for the nine months ended September 30, 2005, compared with \$69,924,000 for the nine months ended September 30, 2004. Of the total increase, approximately \$4,893,000 or 65% was the result of the impact of the operation of radio stations that we did not own or operate for the comparable period in 2004. Station operating expense increased by approximately \$2,647,000 or 4% on a same station basis, as a result of an increase in selling and commission expenses which was directly attributable to the increase in revenue, and increase in programming expenses as a result of competitive pressures in several of our radio markets, an increase of approximately 20% in health care costs and an increase in depreciation expense of approximately \$264,000 or 5%. We anticipate the increase in selling and programming expenses to continue in the future. We anticipate increases in health care costs of 15% to 20% in the future.

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Operating income for the nine months ended September 30, 2005 was \$21,821,000 compared to \$22,700,000 for the nine months ended September 30, 2004, a decrease of approximately \$879,000 or 4%. The decrease was the result of the increase in net operating revenue, offset by the increase in station operating expense and \$122,000 or 2% increase in corporate general and administrative charges.

We generated net income of approximately \$8,677,000 (\$.42 per share on a fully diluted basis) during the nine months ended September 30, 2005, compared with \$11,710,000 (\$.55 per share on a fully diluted basis) for the nine months ended September 30, 2004, a decrease of approximately \$3,033,000 or 26%. The decrease was the result of the decrease in operating income discussed above, an increase in interest expense of approximately \$2,295,000 and a \$1,220,000 increase in other expense, offset by a \$1,361,000 decrease in income tax expense. The increase in interest expense was the result of interest on additional borrowings of approximately \$817,000 and higher interest rates over the prior year of approximately \$1,478,000. The increase in other expense was the principally the result of a \$1,300,000 loss recognized on the disposition of a tower made obsolete by our DTV conversation in our Victoria, Texas market. The decrease in income tax expense was directly attributable to the operating performance.

### ***Radio Segment***

For the nine months ended September 30, 2005, net operating revenue in the radio segment was \$94,240,000 compared with \$87,997,000 for the nine months ended September 30, 2004, an increase of \$6,243,000 or 7%. Approximately \$5,597,000 or 90% of the increase was attributable to revenue generated by radio stations and radio networks that we did not own or operate for the comparable period in 2004. Net operating revenue generated by radio stations and radio networks that we owned and operated for the entire comparable period increased by approximately \$646,000 or 1%. The majority of the improvement in same station revenue was attributable to same station local revenue increases of approximately 2%, offset by an 82% decrease in same station political revenue and 3% decrease in same station national revenue.

Station operating expense in our radio segment increased by \$7,054,000 or 12% to \$67,453,000 for the nine months ended September 30, 2005, compared with \$60,399,000 for the nine months ended September 30, 2004. Of the total increase, approximately \$4,893,000 or 69% was the result of the impact of the operation of stations that we did not own or operate for the comparable period in 2004. Station operating expense increased by approximately \$2,161,000 or 4% on a same station basis, which is primarily the result of an increase in selling and commission expenses directly attributed to the increase in revenue, increases in programming expenses as a result of competitive pressures in several of our radio markets, an increase of approximately \$512,000 or 21% in health care costs and an increase in depreciation expense of approximately \$216,000 or 6%. We anticipate the increases in selling and programming expenses to continue in the future. We anticipate increases in health care costs of 15% to 20% in the future.

Operating income in the radio segment for the nine months ended September 30, 2005 was \$26,787,000 compared to \$27,598,000 for the nine months ended September 30, 2004, a decrease of approximately \$811,000 or 3%. The decrease was the result of the increase in net operating revenue, offset by the increase in station operating expense.

### ***Television Segment***

For the nine months ended September 30, 2005, net operating revenue in the television segment was \$11,105,000 compared with \$10,565,000 for the nine months ended September 30, 2004, an increase of \$540,000 or 5%. The majority of the increase in revenue was attributable to the Fox affiliate in Joplin, Missouri that went on the air in October 2003.

Station operating expense in our television segment increased by \$486,000 or 5% to \$10,011,000 for the nine months ended September 30, 2005, compared with \$9,525,000 for the nine months ended September 30, 2004. Station operating expense increased was attributable to increases in selling and commission expenses as a result of the increase in revenue and a \$47,000 or 4% increase in depreciation expense.

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Operating income in the television segment for the nine months ended September 30, 2005 was \$1,094,000 compared to \$1,040,000 for the nine months ended September 30, 2004, an increase of approximately \$54,000 or 5%. The increase was the result of the increase in net operating revenue, offset by the increase in station operating expense.

### **Outlook**

The following statements are forward-looking statements and should be read in conjunction with “Forward-Looking Statements” below.

### **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 2005 and beyond to differ materially from those expressed in any forward-looking statements made by or on our behalf. Forward looking statements are not guarantees of future performance as they involve a number of risks, uncertainties and assumptions that may prove to be incorrect and that may cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks, uncertainties and assumptions that may affect our performance include our financial leverage and debt service requirements, dependence on key personnel, dependence on key stations, U.S. and local economic conditions, our ability to successfully integrate acquired stations, regulatory requirements, new technologies, natural disasters and terrorist attacks. We cannot be sure that we will be able to anticipate or respond timely to changes in any of these factors, which could adversely affect the operating results in one or more fiscal quarters. Results of operations in any past period should not be considered, in and of itself, indicative of the results to be expected for future periods. Fluctuations in operating results may also result in fluctuations in the price of our stock.

For a more complete description of the prominent risks and uncertainties inherent in our business, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Forward Looking Statements; Risk Factors” in our Form 10-K for the year ended December 31, 2004.

### **Liquidity and Capital Resources**

#### ***Debt Arrangements and Debt Service Requirements***

As of September 30, 2005, we had \$154,850,000 (including the current portion of \$7,000,000) of long-term debt outstanding and approximately \$45,150,000 of unused borrowing capacity under our Credit Agreement. In October 2005 we used available cash to pay down \$7,000,000 of outstanding debt.

Our Credit Agreement is a \$200,000,000 reducing revolving line of credit maturing on July 29, 2010. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries’ stock and by a guarantee of our subsidiaries.

The Credit Agreement may be used for general corporate purposes, including working capital, capital expenditures, permitted acquisition and related transaction expenses and permitted stock buybacks. On March 31, 2006, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2006. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2010. In addition, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in Credit Agreement) based on leverage ratios.

In May 2005 we amended the Credit Agreement to reduce the interest rate margin for LIBOR and the Agent bank’s base rate. Interest rates under the Credit Agreement are payable, at our option, at alternatives equal to LIBOR plus 0.75% to 1.625% (1.375% to 2.0% as of September 30, 2004) or the Agent bank’s base

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rate plus 0% to 0.375% (0.125% to 0.75% as of September 30, 2004). The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment fees of 0.375% to 0.625% per annum on the unused portion of the Credit Agreement.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2005) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

### ***Sources and Uses of Cash***

During the nine months ended September 30, 2005 and 2004, we had net cash flows from operating activities of \$19,012,000 and \$22,073,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest and scheduled payments of principal under the Credit Agreement. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

During the nine months ended September 30, 2005 we borrowed \$4,000,000 under the Credit Agreement for general corporate purposes.

The following 2005 acquisitions were financed through funds generated from operations, \$30,750,000 of borrowings under our Credit Agreement and the re-issuance of approximately \$4,588,000 of our Class A common stock from treasury:

- Effective June 1, 2005, we acquired two FM and two AM radio stations (WQNY-FM, WYXL-FM, WNYY-AM and WHCU-AM) serving the Ithaca, New York market, for approximately \$13,600,000 including approximately \$2,602,000 of our Class A common stock. We financed this transaction through funds generated from operations and additional borrowings of approximately \$11,000,000 under our Credit Agreement.
- Effective January 1, 2005, we acquired one AM and two FM radio stations (WINA-AM, WWWV-FM and WQMZ-FM) serving the Charlottesville, Virginia market for approximately \$22,490,000 including approximately \$1,986,000 of our Class A common stock. We financed this transaction through funds generated from operations and additional borrowings of approximately \$19,750,000 under our Credit Agreement.
- Effective January 1, 2005, we acquired one AM radio station (WISE-AM) serving the Asheville, North Carolina market for approximately \$2,192,000. We have provided programming to this station under a TBA since November 1, 2002.
- Effective January 1, 2005 we acquired a low power television station (KMOL-LP) serving Victoria, Texas market for approximately \$268,000.

In addition, the following transaction was pending at September 30, 2005, which we expect to finance through funds generated from operations and additional borrowings under our Credit Agreement:

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

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

In May 2005, our board of directors authorized an increase to our Stock Buy-Back Program so that we may purchase a total of \$30,000,000 of our Class A Common Stock. From the inception of the Stock

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Buy-Back program in 1998 through September 30, 2005, we have repurchased 1,473,689 shares of our Class A Common Stock for approximately \$22,600,000. During the nine months ended September 30, 2005 we repurchased 489,325 shares for approximately \$7,433,000.

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

Our capital expenditures, exclusive of acquisitions, for the nine months ended September 30, 2005 were approximately \$9,054,000 (\$8,249,000 in 2004). We anticipate capital expenditures exclusive of acquisitions in 2005 to be approximately \$10,500,000, which we expect to finance through funds generated from operations or additional borrowings under the Credit Agreement.

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

We have future cash obligations under various types of contracts under the terms of our Credit Agreement, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see Item 7. “Managements Discussion and Analysis of Financial Condition and Results of Operation-Summary Disclosures About Contractual Obligations and Commercial Commitments” in our annual report on Form 10-K for the year ended December 31, 2004.

There have been no material changes to such contracts/commitments during the nine months ended September 30, 2005. We anticipate that the above contractual cash obligations will be financed through funds generated from operations or additional borrowings under the Credit Agreement, or a combination thereof.

### ***Critical Accounting Policies and Estimates***

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There has been no significant changes to our critical accounting policies that are described in Item 7. “Managements Discussion and Analysis of Financial Condition and Results of Operations –Critical Accounting Policies” in our annual report on Form 10-K for the year ended December 31, 2004.

### ***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, 2004 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2004 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

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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 September 30, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II — OTHER INFORMATION**

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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: November 8, 2005

/s/ SAMUEL D. BUSH

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

Date: November 8, 2005

/s/ CATHERINE A. BOBINSKI

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

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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: November 8, 2005

/s/ Edward K. Christian  
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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 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: November 8, 2005

/s/ Samuel D. Bush  
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Chief Financial Officer

**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**

In connection with the Quarterly Report of Saga Communications, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 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, that:

1. The Report fully complies with the requirements of Section 13(a) 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: November 8, 2005

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

Dated: November 8, 2005

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