

SAGA COMMUNICATIONS INC  
Form 10-Q  
August 07, 2015

**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 June 30, 2015**

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

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

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

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

The number of shares of the registrant's Class A Common Stock, \$.01 par value, and Class B Common Stock, \$.01 par value, outstanding as of August 3, 2015 was 4,967,504 and 843,034, respectively.



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

|  | <b>June 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|--------------------------|------------------------------|
|  | <b>(Unaudited)</b>       | <b>(Note)</b>                |
|  | <b>(In thousands)</b>    |                              |
| <b>Assets</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents                              | \$27,378                 | \$ 17,907                    |
| Accounts receivable, net                               | 20,338                   | 20,661                       |
| Prepaid expenses and other current assets              | 2,612                    | 2,957                        |
| Barter transactions                                    | 1,605                    | 1,217                        |
| Deferred income taxes                                  | 846                      | 845                          |
| Total current assets                                   | 52,779                   | 43,587                       |
| Property and equipment                                 | 161,951                  | 161,602                      |
| Less accumulated depreciation                          | 108,051                  | 106,415                      |
| Net property and equipment                             | 53,900                   | 55,187                       |
| Other assets:  |                          |                              |
| Broadcast licenses, net                                | 86,762                   | 86,762                       |
| Goodwill   | 326                      | 326                          |
| Other intangibles, deferred costs and investments, net | 6,532                    | 6,182                        |
|  | <b>\$200,299</b>         | <b>\$ 192,044</b>            |
| <b>Liabilities and stockholders' equity</b>            |                          |                              |
| Current liabilities:                                   |                          |                              |
| Accounts payable                                       | \$2,115                  | \$ 2,133                     |
| Payroll and payroll taxes                              | 6,355                    | 6,788                        |
| Other accrued expenses                                 | 4,457                    | 2,756                        |
| Barter transactions                                    | 1,679                    | 1,356                        |
| Total current liabilities                              | 14,606                   | 13,033                       |
| Deferred income taxes                                  | 25,072                   | 23,786                       |
| Long-term debt   | 36,078                   | 36,078                       |
| Other liabilities                                      | 4,067                    | 3,902                        |
| Total liabilities                                      | 79,823                   | 76,799                       |

**Commitments and contingencies**

**Stockholders' equity:**

|                            |           |            |
|----------------------------|-----------|------------|
| Common stock               | 72        | 72         |
| Additional paid-in capital | 54,047    | 52,496     |
| Retained earnings          | 95,459    | 91,178     |
| Treasury stock             | (29,102 ) | (28,501 )  |
| Total stockholders' equity | 120,476   | 115,245    |
|                            | \$200,299 | \$ 192,044 |

Note: The balance sheet at December 31, 2014 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**

|  | <b>Three Months Ended</b>                    |             | <b>Six Months Ended</b> |             |
|--|--|-------------|-------------------------|-------------|
|  | <b>June 30,</b>                              |             | <b>June 30,</b>         |             |
|  | <b>2015</b>                                  | <b>2014</b> | <b>2015</b>             | <b>2014</b> |
|  | <b>(Unaudited)</b>                           |             |                         |             |
|  | <b>(In thousands, except per share data)</b> |             |                         |             |
| Net operating revenue                                | \$34,358                                     | \$33,831    | \$63,419                | \$63,254    |
| Station operating expense                            | 24,311                                       | 23,499      | 47,076                  | 46,446      |
| Corporate general and administrative                 | 2,583  | 2,120       | 5,065                   | 4,273       |
| Other operating expense                              | 14   | —           | 14                      | —           |
| Operating income                                     | 7,450  | 8,212       | 11,264                  | 12,535      |
| Interest expense                                     | 244  | 272         | 485                     | 544         |
| Other (income) expense, net                          | (409 )                                       | (30 )       | (417 )                  | (45 )       |
| Income tax provision                                 | 3,141  | 3,193       | 4,591                   | 4,820       |
| Net income   | \$4,474                                      | \$4,777     | \$6,605                 | \$7,216     |
| Earnings per share:                                  |  |             |                         |             |
| Basic earnings per share                             | \$.77  | \$.83       | \$1.14                  | \$1.26      |
| Diluted earnings per share                           | \$.77  | \$.82       | \$1.13                  | \$1.24      |
| Weighted average common shares                       | 5,712  | 5,699       | 5,711                   | 5,695       |
| Weighted average common and common equivalent shares | 5,757  | 5,754       | 5,759                   | 5,755       |
| Dividends declared per share                         | \$.20  | \$.20       | \$.40                   | \$.20       |

See notes to unaudited condensed consolidated financial statements.

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

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2015</b>             | <b>2014</b> |
|   | <b>(Unaudited)</b>      |             |
|   | <b>(In thousands)</b>   |             |
| <b>Cash flows from operating activities:</b>        |                         |             |
| Cash provided by operating activities               | \$12,833                | \$11,811    |
| <b>Cash flows from investing activities:</b>        |                         |             |
| Acquisition of property and equipment               | (2,254 )                | (2,914 )    |
| Proceeds from insurance claim                       | 777                     | —           |
| Other investing activities                          | (602 )                  | (852 )      |
| Net cash (used in) provided by investing activities | (2,079 )                | (3,766 )    |
| <b>Cash flows from financing activities:</b>        |                         |             |
| Cash dividends paid                                 | (1,161 )                | —           |
| Other financing activities                          | (122 )                  | 243         |
| Net cash (used in) provided by financing activities | (1,283 )                | 243         |
| Net increase in cash and cash equivalents           | 9,471                   | 8,288       |
| Cash and cash equivalents, beginning of period      | 17,907                  | 17,628      |
| Cash and cash equivalents, end of period            | \$27,378                | \$25,916    |

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, 2015 and the results of operations for the three and six months ended June 30, 2015 and 2014. Results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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, 2014.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2015, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

*Earnings Per Share Information*

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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:

|   | <b>Three Months Ended June 30,</b>           |             | <b>Six Months Ended June 30,</b> |             |
|---|--|-------------|----------------------------------|-------------|
|   | <b>2015</b>                                  | <b>2014</b> | <b>2015</b>                      | <b>2014</b> |
|   | <b>(In thousands, except per share data)</b> |             |                                  |             |
| <b>Numerator:</b>   |  |             |                                  |             |
| Net income  | \$ 4,474                                     | \$ 4,777    | \$ 6,605                         | \$ 7,216    |
| Less: Net income allocated to unvested participating securities                                       | 68   | 41          | 100                              | 62          |
| Net income available to common stockholders   | \$ 4,406                                     | \$ 4,736    | \$ 6,505                         | \$ 7,154    |
| <b>Denominator:</b>   |  |             |                                  |             |
| Denominator for basic earnings per share — weighted average shares                                    | 5,712  | 5,699       | 5,711                            | 5,695       |
| Effect of dilutive securities:  |  |             |                                  |             |
| Common stock equivalents  | 45   | 55          | 48                               | 60          |
| Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions | 5,757  | 5,754       | 5,759                            | 5,755       |
| Basic earnings per share:   | \$ .77                                       | \$ .83      | \$ 1.14                          | \$ 1.26     |
| Diluted earnings per share:   | \$ .77                                       | \$ .82      | \$ 1.13                          | \$ 1.24     |

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 0 for the three and six months ended June 30, 2015 and 45,000 and 0 for the three and six months ended June 30, 2014, respectively. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**

**STATEMENTS — (Continued)**

*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, 2015.

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

**2. Recent Accounting Pronouncements**

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, “*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*” (“ASU 2015-05”), with new guidance on whether a cloud computing arrangement includes a software license and the accounting for such an arrangement. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for consistently with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the agreement should be accounted for as a service contract. ASU 2015-05 is effective for fiscal years and interim periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, “*Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*” (“ASU 2015-03”), with new guidance on the presentation of debt issuance costs that requires all costs incurred to issue debt to be presented on the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. ASU 2015-03 is effective for fiscal years and interim periods beginning after December 15, 2015, with early adoption permitted. We currently present deferred financing costs within Other assets. Accordingly, the adoption of the new guidance will result in the reclassification of debt issuance costs as an offset to Long term debt in the Company’s condensed consolidated balance sheets, which we do not expect to be material to our financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, “*Consolidation (Topic 810), Amendments to the Consolidation Analysis*” (“ASU 2015-02”), which amends the consolidation requirements in ASC 810, primarily related to limited partnerships and VIEs. ASU 2015-02 is effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, “*Income Statement-Extraordinary and Unusual Items*” (“ASU 2015-01”), which simplifies income statement presentation by eliminating the need to determine whether to classify an item as an extraordinary item. ASU 2015-01 is effective for the first interim period within annual reporting periods beginning after December 15, 2015 and is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, “*Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern*” (“ASU 2014-15”), which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern and provide related disclosures. ASU 2014-15 is effective for the first interim period within annual reporting periods beginning after December 15, 2016 and is not expected to have a material impact on the Company’s consolidated financial statements.

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**

**STATEMENTS — (Continued)**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), which provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under GAAP. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016. In July 2015, the FASB made a decision to defer the effective date of ASU 2014-09 for one year and permit early adoption as of the original effective date. The Company is currently evaluating the impact of the provisions of this standard on our consolidated financial statements.

**3. Intangible Assets**

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

**4. Common Stock and Treasury Stock**

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through June 30, 2015:

|                                 | <b>Common Stock Issued</b>   |                |
|---------------------------------|------------------------------|----------------|
|                                 | <b>Class A</b>               | <b>Class B</b> |
|                                 | <b>(Shares in thousands)</b> |                |
| Balance, January 1, 2014        | 6,409                        | 816            |
| Exercised options               | 7                            | —              |
| Conversion of shares            | 3                            | (3 )           |
| Issuance of restricted stock    | 27                           | 30             |
| Balance, December 31, 2014      | 6,446                        | 843            |
| Exercised options               | 29                           | —              |
| Forfeitures of restricted stock | (1 )                         | —              |
| Balance, June 30, 2015          | 6,474                        | 843            |

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, 2015 we have remaining authorization of \$28.8 million for future repurchases of our Class A Common Stock.

## **5. 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 acquisition 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.

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**

**STATEMENTS — (Continued)**

*Pending Acquisitions*

On May 5, 2015, we entered into an agreement to purchase two FM stations (WSIG-FM and WBOP-FM) serving the Harrisonburg, Virginia market for approximately \$1,335,000. FCC Rules prohibit us from owning both of these stations and we intend to donate WBOP-FM to a charitable organization subsequent to closing this acquisition. This transaction is subject to the approval of the FCC and we expect to close on the acquisition in the third quarter of 2015.

On August 1, 2015, we acquired two AM and three FM stations and one FM translator (WSVA-AM, WHBG-AM, WQPO-FM, WJDV-FM, WTGD-FM and W221CF- FX) serving the Harrisonburg, Virginia market for approximately \$9,640,000, cash was utilized to fund the acquisition.

*2014 Acquisitions and Dispositions*

On January 31, 2014, we acquired one FM station (WFIZ-FM) and three FM Translators serving the Ithaca, New York market for approximately \$720,000. We financed this transaction through funds generated from operations. The proforma results of operations for the acquisition of WFIZ-FM are not material to our financial statements.

The final allocation of the purchase price is as follows:

|   | <b>Fair Value<br/>(in thousands)</b> |
|---|--------------------------------------|
| <b>Assets Acquired:</b>                           |                                      |
| Current assets                                    | \$ 45                                |
| Property and equipment                            | 425                                  |
| Broadcast licenses-Radio segment                  | 174                                  |
| Other intangibles, deferred costs and investments | 3                                    |

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|                               |        |
|-------------------------------|--------|
| Fair value of assets acquired | 647    |
| Goodwill-Radio segment        | 73     |
| Total cash consideration      | \$ 720 |

On February 28, 2014 we acquired an FM translator serving the Jonesboro, Arkansas market for approximately \$35,000, of which \$7,500 was allocated to broadcast licenses and \$27,500 was allocated to goodwill.

On May 9, 2014 we acquired an FM translator serving the Clarksville, Tennessee market for approximately \$30,000, of which \$7,500 was allocated to broadcast licenses and \$22,500 was allocated to goodwill.

On May 14, 2014 we acquired an FM translator serving the Portland, Maine market for approximately \$44,750, of which \$7,500 was allocated to broadcast licenses and \$37,250 was allocated to goodwill.

On May 16, 2014 we acquired two FM translators serving the Asheville, North Carolina market for approximately \$100,000, of which \$15,000 was allocated to broadcast licenses and \$85,000 was allocated to goodwill.

On June 16, 2014 we acquired an FM translator serving the Des Moines, Iowa market for approximately \$87,500, of which \$7,500 was allocated to broadcast licenses and \$80,000 was allocated to goodwill.

On November 4, 2014 we acquired an LPTV servicing the Victoria, Texas market for approximately \$18,500, which was allocated to broadcast licenses.



**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**

**STATEMENTS — (Continued)**

On December 2, 2014, we sold the Michigan Radio Network, the Michigan Farm Network, the Minnesota News Network and the Minnesota Farm Network, for approximately \$1,640,000. The net assets of these networks approximated \$ 430,000, and as such recognized a gain of approximately \$1,210,000 that is included in Other operating (income) expense in our 2014 Consolidated Statements of Income. The proforma results of operations for the sale of these networks is not material to our financial statements and as such are not presented. These radio networks have historically been presented within our radio segment. The radio networks did not meet the criteria of discontinued operations.

**6. 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 (the “Second Restated 2005 Plan”). The 2005 Incentive Compensation Plan was first approved by stockholders in 2005 and replaced our 2003 Stock Option Plan (the “2003 Plan”). The 2005 Incentive Compensation Plan was re-approved by stockholders in 2010. The changes made in the Second Restated 2005 Plan (i) increases the number of authorized shares by 233,334 shares of Common Stock, (ii) extends the date for making awards to September 6, 2018, (iii) includes directors as participants, (iv) targets awards according to groupings of participants based on ranges of base salary of employees and/or retainers of directors, (v) requires participants to retain 50% of their net annual restricted stock awards during their employment or service as a director, and (vi) includes a clawback provision. 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 280,000 shares of Class B Common Stock, 900,000 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 280,000 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, 2015 and the three and six months ended June 30, 2014, respectively.

The following summarizes the stock option transactions for the 2005 and 2003 Plans for the six months ended June 30, 2015:

|                                | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted Average<br/>Remaining<br/>Contractual Term<br/>(Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|--------------------------------|------------------------------|--|--|--|
| Outstanding at January 1, 2015 | 213,170                      | \$ 31.79                                       | 1.2  | \$2,519,147                              |
| Exercised                      | (28,466 )                    | 27.29  |  |  |
| Expired                        | (58,781 )                    | 43.47  |  |  |
| Outstanding at June 30, 2015   | 125,923                      | \$ 27.36                                       | 1.0  | \$1,321,078                              |
| Exercisable at June 30, 2015   | 125,923                      | \$ 27.36                                       | 1.0  | \$1,321,078                              |

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

The following summarizes the restricted stock transactions for the six months ended June 30, 2015:

|   | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|---|---------------|---|
| Outstanding at January 1, 2015              | 89,832        | \$ 41.20  |
| Vested                                      | (2,351 )      | 46.51   |
| Forfeited                                   | (991 )        | 46.51   |
| Non-vested and outstanding at June 30, 2015 | 86,490        | \$ 41.00  |

For the three and six months ended June 30, 2015 and the three and six months ended June 30, 2014, we had \$365,000, \$827,000, \$191,000 and \$379,000, 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, 2015 and the three and six months ended June 30, 2014, was \$146,000, \$331,000, \$76,000 and \$152,000, respectively.

**7. Long-Term Debt**

Long-term debt consisted of the following:

|                           | <b>June 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---------------------------|--------------------------|------------------------------|
|                           | <b>(In thousands)</b>    |                              |
| Credit Agreement:         |                          |                              |
| Term loan                 | \$30,000                 | \$ 30,000                    |
| Revolving credit facility | 5,000                    | 5,000                        |
| Secured debt of affiliate | 1,078                    | 1,078                        |

|                                 |          |           |
|---------------------------------|----------|-----------|
|                                 | 36,078   | 36,078    |
| Amounts payable within one year | —        | —         |
|                                 | \$36,078 | \$ 36,078 |

Our credit facility providing availability up to \$120 million at June 30, 2015 (the “Credit Facility”) consists of a \$30 million term loan (the “Term Loan”) and a \$90 million revolving loan (the “Revolving Credit Facility”) and matures on May 31, 2018.

We had \$85 million of unused borrowing capacity under the Revolving Credit Facility at June 30, 2015. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses. As of June 30, 2015, we have no required amortization payment.

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL**

**STATEMENTS — (Continued)**

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (0.1866% at June 30, 2015 and 0.16925% at December 31, 2014), plus 1.25% to 2.25% or the base rate plus 0.25% to 1.25%. 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 0.25% to 0.35% per annum on the unused portion of the Revolving Credit Facility.

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.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at June 30, 2015) 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.

The loan agreement of approximately \$1.1 million of secured debt of affiliate was amended in April, 2014 to extend the due date of the loan for three years to mature on May 1, 2017.

**8. 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.

At June 30, 2015, the Radio segment includes twenty-three markets, which includes all ninety-two of our radio stations and one radio information network. As described in Note 5 above, we have since acquired two AM and three FM stations and one FM translator serving the Harrisonburg, Virginia market. The Television segment includes two markets and consists of four television stations and five low power television (“LPTV”) stations. The Radio and Television segments derive their revenue from the sale of commercial broadcast inventory. The category “Corporate

general and administrative” represents the income and expense not allocated to reportable segments.

|  | <b>Radio</b>          | <b>Corporate<br/>Television and Other</b> |            | <b>Consolidated</b> |
|--|-----------------------|---|------------|---------------------|
|  | <b>(In thousands)</b> |   |            |                     |
| <b>Three Months Ended June 30, 2015:</b> |                       |   |            |                     |
| Net operating revenue                    | \$29,017              | \$5,341                                   | \$ —       | \$ 34,358           |
| Station operating expense                | 20,819                | 3,492                                     | —          | 24,311              |
| Corporate general and administrative     | —                     | —   | 2,583      | 2,583               |
| Other operating expense                  | 14                    | —   | —          | 14                  |
| Operating income (loss)                  | \$8,184               | \$1,849                                   | \$ (2,583) | ) \$ 7,450          |
| Depreciation and amortization            | \$1,207               | \$322                                     | \$ 77      | \$ 1,606            |

|  | <b>Radio</b>          | <b>Corporate<br/>Television and Other</b> |            | <b>Consolidated</b> |
|--|-----------------------|---|------------|---------------------|
|  | <b>(In thousands)</b> |   |            |                     |
| <b>Three Months Ended June 30, 2014:</b> |                       |   |            |                     |
| Net operating revenue                    | \$28,851              | \$4,980                                   | \$ —       | \$ 33,831           |
| Station operating expense                | 20,200                | 3,299                                     | —          | 23,499              |
| Corporate general and administrative     | —                     | —   | 2,120      | 2,120               |
| Other operating expense                  | —                     | —   | —          | —                   |
| Operating income (loss)                  | \$8,651               | \$1,681                                   | \$ (2,120) | ) \$ 8,212          |
| Depreciation and amortization            | \$1,236               | \$346                                     | \$ 58      | \$ 1,640            |

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

|  | <b>Radio</b>          | <b>Television</b> | <b>Corporate<br/>and Other</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------|--------------------------------|---------------------|
|  | <b>(In thousands)</b> |                   |                                |                     |
| <b>Six Months Ended June 30, 2015:</b> |                       |                   |                                |                     |
| Net operating revenue                  | \$53,293              | \$10,126          | \$ —                           | \$ 63,419           |
| Station operating expense              | 40,241                | 6,835             | —                              | 47,076              |
| Corporate general and administrative   | —                     | —                 | 5,065                          | 5,065               |
| Other operating expense                | 14                    | —                 | —                              | 14                  |
| Operating income (loss)                | \$13,038              | \$3,291           | \$ (5,065)                     | \$ 11,264           |
| Depreciation and amortization          | \$2,381               | \$669             | \$ 145                         | \$ 3,195            |
| Total assets                           | \$140,872             | \$22,767          | \$ 36,660                      | \$ 200,299          |

|  | <b>Radio</b>          | <b>Television</b> | <b>Corporate<br/>and Other</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------|--------------------------------|---------------------|
|  | <b>(In thousands)</b> |                   |                                |                     |
| <b>Six Months Ended June 30, 2014:</b> |                       |                   |                                |                     |
| Net operating revenue                  | \$53,776              | \$9,478           | \$ —                           | \$ 63,254           |
| Station operating expense              | 39,939                | 6,507             | —                              | 46,446              |
| Corporate general and administrative   | —                     | —                 | 4,273                          | 4,273               |
| Other operating expense                | —                     | —                 | —                              | —                   |
| Operating income (loss)                | \$13,837              | \$2,971           | \$ (4,273)                     | \$ 12,535           |
| Depreciation and amortization          | \$2,466               | \$691             | \$ 128                         | \$ 3,285            |
| Total assets                           | \$144,953             | \$22,368          | \$ 34,667                      | \$ 201,988          |

**9. 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.

**10. Other Income**

During the second quarter of 2015, two transmitters in our Victoria, Texas market were significantly damaged by lightning. The Company's insurance policy provided coverage for the replacement cost of the transmitters. The insurance settlement was finalized during the quarter and the Company received cash proceeds of \$777,000, resulting in a \$417,000 gain. The gain on insurance settlement represents the difference between the replacement cost and carrying value of the transmitters. The gain is recorded in other (income) expense, net, in the Company's Condensed Consolidated Statements of Income.

## **11. Subsequent Events**

On June 10, 2015, the Company's Board of Directors declared a regular cash dividend of \$0.20 per share on its Classes A and B Common Stock. This dividend, totaling \$1.2 million, which is recorded within Other accrued expenses as of June 30, 2015, was paid on July 10, 2015 to shareholders of record on June 22, 2015.



**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, 2014. 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 reflected only in our discussion of consolidated results.

For purposes of business segment reporting, at June 30, 2015, we have aligned operations with similar characteristics into two business segments: Radio and Television. The Radio segment includes twenty-three markets, which includes all ninety-two of our radio stations and one radio information network ("Network"). As described in Note 5 above, we have since acquired two AM and three FM stations and one FM translator serving the Harrisonburg, Virginia market. The Television segment includes two markets and consists of four television stations and five LPTV stations. The discussion of our operating performance focuses on segment operating income because we manage our segments primarily on operating income. Operating performance is evaluated for each individual market.

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.

## **Radio Segment**

Our radio segment’s 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 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, 2015 and 2014, approximately 88%, of our radio segment’s 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 2015 due to the lower number of congressional, senatorial, gubernatorial and local elections in most of our markets as compared to 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 numerous platforms to allow our listeners and viewers to connect with our products where and when they want. We have also opened up a new set of digital inventory in the form of targeted display advertising across 98% of the web. This gives our reps an expanded menu of services to offer our clients while not impacting any of our on-air inventory. In addition to targeted display, we continue to offer an array of digital services that include online promotions, mobile messaging, and email marketing.

In addition, we continue the rollout of HD Radio. HD Radio utilizes digital technology that provides improved sound quality over standard analog broadcasts and also allows for the delivery of additional channels of diversified programming or data streams in each radio market.

During the six months ended June 30, 2015 and 2014 and the years ended December 31, 2014 and 2013, our Columbus, Ohio; Des Moines, Iowa; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 35%, 34%, 34% and 34%, respectively, of our consolidated net operating revenue. 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:

| Market:                   | 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, |   |      |   |
|---------------------------|--|---|------|---|---|---|------|---|
|                           | 2015   |   | 2014 |   | 2014  |   | 2013 |   |
| Columbus, Ohio            | 7  | % | 7    | % | 7   | % | 7    | % |
| Des Moines, Iowa          | 7  | % | 6    | % | 6   | % | 6    | % |
| Manchester, New Hampshire | 5  | % | 5    | % | 5   | % | 6    | % |
| Milwaukee, Wisconsin      | 11   | % | 11   | % | 11  | % | 11   | % |
| Norfolk, Virginia         | 5  | % | 5    | % | 5   | % | 5    | % |

During the six months ended June 30, 2015 and 2014 and the years ended December 31, 2014 and 2013, the radio stations in our five largest markets when combined, represented approximately 35%, 38%, 39% and 40%, 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:

| Market:                   | 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, |   |      |   |
|---------------------------|---|---|------|---|--|---|------|---|
|                           | 2015  |   | 2014 |   | 2014   |   | 2013 |   |
| Columbus, Ohio            | 8   | % | 9    | % | 7  | % | 8    | % |
| Des Moines, Iowa          | 6   | % | 5    | % | 5  | % | 5    | % |
| Manchester, New Hampshire | 6   | % | 7    | % | 7  | % | 8    | % |
| Milwaukee, Wisconsin      | 11  | % | 13   | % | 10   | % | 11   | % |
| Norfolk, Virginia         | 4   | % | 6    | % | 3  | % | 7    | % |

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

### **Television Segment**

Our television segment's 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 network affiliation and syndicated programming agreements and, with respect to children's programs, federal regulation. Our television stations' local market managers determine the number of advertisements to be broadcast in locally produced programs only, which are primarily news programming and occasionally local sports or information shows.

Our net operating revenue, station operating expense and operating income vary from market to market based upon the market's rank or size, which is based upon population, 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.

Our stations strive to maximize revenue by constantly adjusting prices for our commercial spots based upon local market conditions, advertising demands 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 pricing adjustments, which are made to ensure that the station efficiently utilizes available inventory.

Because audience ratings in the local market are crucial to a station's financial success, we endeavor to develop strong viewer loyalty by providing locally produced news, weather and sports programming. We believe that this emphasis on the local market provides us with the viewer loyalty we are trying to achieve.

Most of our revenue is generated from local advertising, which is sold primarily by each television markets' sales staff. For the six months ended June 30, 2015 and 2014, approximately 84% and 83%, respectively, of our television segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television 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 2015 due to the lower number of congressional, senatorial, gubernatorial and local elections in most of our markets as compared to prior year.

The primary operating expenses involved in owning and operating television stations are employee salaries, sales commissions, programming expenses, including news production and the cost of acquiring certain syndicated programming, depreciation and advertising and promotion expenses.

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Our television market in Joplin, Missouri represented approximately 10%, 9%, 10% and 9%, respectively, of our net operating revenues, and approximately 13%, 12%, 13% and 12%, respectively, of our consolidated station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization, other operating (income) expenses, and impairment of intangible assets) for the six months ended June 30, 2015 and 2014 and the years ended December 31, 2014 and 2013.



**Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014****Results of Operations**

The following tables summarize our results of operations for the three months ended June 30, 2015 and 2014.

**Consolidated Results of Operations**

|                                      | <b>Three Months Ended</b>   |             | <b>\$ Increase<br/>(Decrease)</b> | <b>%<br/>Increase<br/>(Decrease)</b> |   |
|--------------------------------------|---|-------------|-----------------------------------|--------------------------------------|---|
|                                      | <b>June 30,<br/>2015</b>  | <b>2014</b> |                                   |                                      |   |
|                                      | <b>(In thousands, except percentages and per share information)</b> |             |                                   |                                      |   |
| Net operating revenue                | \$ 34,358   | \$ 33,831   | \$ 527                            | 1.6                                  | % |
| Station operating expense            | 24,311  | 23,499      | 812                               | 3.5                                  | % |
| Corporate general and administrative | 2,583   | 2,120       | 463                               | 21.8                                 | % |
| Other operating (income) expense     | 14  | —           | 14                                | N/M                                  |   |
| Operating income                     | 7,450   | 8,212       | (762 )                            | (9.3 )                               | % |
| Interest expense                     | 244   | 272         | (28 )                             | (10.3 )                              | % |
| Other (income) expense, net          | (409 )  | (30 )       | (379 )                            | N/M                                  |   |
| Income tax provision                 | 3,141   | 3,193       | (52 )                             | (1.6 )                               | % |
| Net income                           | \$ 4,474  | \$ 4,777    | \$ (303 )                         | (6.3 )                               | % |
| Earnings per share (diluted)         | \$ .77  | \$ .82      | \$ (.05 )                         | (6.1 )                               | % |

**Radio Broadcasting Segment**

|                                  | <b>Three Months Ended</b>                 |             | <b>\$ Increase<br/>(Decrease)</b> | <b>%<br/>Increase<br/>(Decrease)</b> |   |
|----------------------------------|---|-------------|-----------------------------------|--------------------------------------|---|
|                                  | <b>June 30,<br/>2015</b>                  | <b>2014</b> |                                   |                                      |   |
|                                  | <b>(In thousands, except percentages)</b> |             |                                   |                                      |   |
| Net operating revenue            | \$ 29,017                                 | \$ 28,851   | \$ 166                            | 0.6                                  | % |
| Station operating expense        | 20,819                                    | 20,200      | 619                               | 3.1                                  | % |
| Other operating (income) expense | 14  | —           | 14                                | N/M                                  |   |
| Operating income                 | \$ 8,184                                  | \$ 8,651    | \$ (467 )                         | (5.4 )                               | % |

**Television Broadcasting Segment**

|                                  | <b>Three Months Ended</b>                 |             | <b>\$ Increase<br/>(Decrease)</b> | <b>% Increase<br/>(Decrease)</b> |   |
|----------------------------------|---|-------------|-----------------------------------|----------------------------------|---|
|                                  | <b>June 30,<br/>2015</b>                  | <b>2014</b> |                                   |                                  |   |
|                                  | <b>(In thousands, except percentages)</b> |             |                                   |                                  |   |
| Net operating revenue            | \$ 5,341                                  | \$ 4,980    | \$ 361                            | 7.3                              | % |
| Station operating expense        | 3,492                                     | 3,299       | 193                               | 5.9                              | % |
| Other operating (income) expense | —   | —           | —                                 | —                                |   |
| Operating income                 | \$ 1,849                                  | \$ 1,681    | \$ 168                            | 10.0                             | % |

N/M = Not Meaningful

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

|  | <b>Radio</b>          | <b>Television</b> | <b>Corporate<br/>and Other</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------|--------------------------------|---------------------|
|  | <b>(In thousands)</b> |                   |                                |                     |
| <b>Three Months Ended June 30, 2015:</b> |                       |                   |                                |                     |
| Net operating revenue                    | \$29,017              | \$ 5,341          | \$ —                           | \$ 34,358           |
| Station operating expense                | 20,819                | 3,492             | —                              | 24,311              |
| Corporate general and administrative     | —                     | —                 | 2,583                          | 2,583               |
| Other operating (income) expense         | 14                    | —                 | —                              | 14                  |
| Operating income (loss)                  | \$8,184               | \$ 1,849          | \$ (2,583 )                    | \$ 7,450            |

|  | <b>Radio</b>          | <b>Television</b> | <b>Corporate<br/>and Other</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------|--------------------------------|---------------------|
|  | <b>(In thousands)</b> |                   |                                |                     |
| <b>Three Months Ended June 30, 2014:</b> |                       |                   |                                |                     |
| Net operating revenue                    | \$28,851              | \$ 4,980          | \$ —                           | \$ 33,831           |
| Station operating expense                | 20,200                | 3,299             | —                              | 23,499              |
| Corporate general and administrative     | —                     | —                 | 2,120                          | 2,120               |
| Other operating (income) expense         | —                     | —                 | —                              | —                   |
| Operating income (loss)                  | \$8,651               | \$ 1,681          | \$ (2,120 )                    | \$ 8,212            |

*Consolidated*

For the three months ended June 30, 2015, consolidated net operating revenue was \$34,358,000 compared with \$33,831,000 for the three months ended June 30, 2014, an increase of \$527,000 or 1.6%. Gross retransmission revenue, gross interactive revenue and gross national revenue increased \$403,000, \$160,000 and \$151,000 respectively and agency commissions decreased \$67,000 from the second quarter of 2014. These improvements to net revenue were offset by decreases in gross local revenue and gross political revenue of \$137,000 and \$99,000 respectively from the second quarter of 2014. The increase in gross retransmission revenue was due to increases in both of our television markets during the second quarter of 2015. Gross interactive revenue increased due to increases in our Columbus, Ohio, and Manchester, New Hampshire markets. The increase in gross national revenue is due to an increase in national advertising on our Illinois Radio Network. The decrease in agency commissions and gross local revenue are primarily related to the sale of our Michigan and Minnesota radio networks in 2014. The decrease in gross political revenue was due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Station operating expense was \$24,311,000 for the three months ended June 30, 2015, compared with \$23,499,000 for the three months ended June 30, 2014, an increase of \$812,000 or 3.5%. The increase is primarily a result of an increase in ratings licensing agreements of \$620,000, an increase in health care costs of \$138,000, an increase in local

commissions of \$89,000, and an increase in retransmission fees of \$83,000 offset by a decrease in compensation costs of \$140,000 primarily due to the sale of our Michigan and Minnesota radio networks in 2014.

Operating income for the three months ended June 30, 2015 was \$7,450,000 compared to \$8,212,000 for the three months ended June 30, 2014, a decrease of \$762,000 or 9.3%. The decrease was a result of the increase in station operating expense offset by an increase in net operating revenue, described above and an increase in our corporate general and administrative expenses of \$463,000 or 21.8%, from the second quarter of 2014. The increase in corporate expenses is due to increases in non-cash compensation related to the amortization of restricted stock grants of \$174,000, an increase in consulting fees of \$116,000, an increase in legal expense of \$57,000, an increase in compensation related expenses of \$41,000, an increase in travel expenses of \$40,000 and an increase in accounting and auditing fees of \$27,000.

We generated net income of \$4,474,000 (\$.77 per share on a fully diluted basis) during the three months ended June 30, 2015, compared to \$4,777,000 (\$.82 per share on a fully diluted basis) for the three months ended June 30, 2014, a decrease of \$303,000 or 6.3%. We had a decrease in operating income of \$762,000, as described above, offset by an increase in other income of \$379,000 primarily attributable to a gain recognized from insurance proceeds related to lightning damage to two of our transmitters, a decrease in income tax expense of \$52,000 and a decrease in interest expense of \$28,000 driven by a decrease in average debt outstanding.

### ***Radio Segment***

For the three months ended June 30, 2015, net operating revenue of the radio segment was \$29,017,000 compared with \$28,851,000 for the three months ended June 30, 2014, which represents an increase of \$166,000 or less than 1%. Gross interactive revenue and gross national revenue increased \$164,000 and \$111,000 respectively and agency commissions decreased \$71,000 from the second quarter of 2014. These improvements to net revenue were offset by decreases in gross local revenue and gross political revenue of \$132,000 and \$77,000 respectively from the second quarter of 2014. Gross interactive revenue increased due to increases in our Columbus, Ohio, and Manchester, New Hampshire markets. The increase in gross national revenue is due to an increase in national advertising on our Illinois Radio Network. The decrease in agency commissions and gross local revenue are primarily related to the sale of our Michigan and Minnesota radio networks in 2014. The decrease in gross political revenue was due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Station operating expense for the radio segment was \$20,819,000 for the three months ended June 30, 2015, compared with \$20,200,000 for the three months ended June 30, 2014, an increase of \$619,000 or 3.1%. The increase is primarily a result of an increase in ratings licensing agreements of \$629,000, an increase in health care costs of \$118,000, an increase in local commissions of \$110,000 offset by a decrease in compensation costs of \$193,000 primarily due to the sale of our Michigan and Minnesota radio networks in 2014.

Operating income in the radio segment decreased \$467,000 or 5.4% to \$8,184,000 for the three months ended June 30, 2015, from \$8,651,000 for the three months ended June 30, 2014. The decrease was a result of the increase in station operating expense partially offset by the increase in net operating revenue as described above.

### ***Television Segment***

For the three months ended June 30, 2015, net operating revenue of our television segment was \$5,341,000 compared with \$4,980,000 for the three months ended June 30, 2014, an increase of \$361,000 or 7.3% which was primarily related to gross retransmission revenue.

Station operating expense in the television segment for the three months ended June 30, 2015 was \$3,492,000, compared with \$3,299,000 for the three months ended June 30, 2014, an increase of \$193,000 or 5.9%. The increase is primarily related to an increase in retransmission fees of \$83,000, an increase in compensation related costs of \$53,000 and an increase in health care costs of \$20,000.

Operating income in the television segment for the three months ended June 30, 2015 was \$1,849,000 compared with \$1,681,000 for the three months ended June 30, 2014, an increase of \$168,000 or 10%. The increase was a direct result of the increase in net operating revenue partially offset by the increase in station operating expense described above.

**Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014**

***Results of Operations***

The following tables summarize our results of operations for the six months ended June 30, 2015 and 2014.

**Consolidated Results of Operations**

|                                      | <b>Six Months Ended</b>   |             |                    |                   |         |
|--------------------------------------|---|-------------|--------------------|-------------------|---------|
|                                      | <b>June 30,</b>   |             | <b>\$ Increase</b> | <b>% Increase</b> |         |
|                                      | <b>2015</b>   | <b>2014</b> | <b>(Decrease)</b>  | <b>(Decrease)</b> |         |
|                                      | <b>(In thousands, except percentages and per share information)</b> |             |                    |                   |         |
| Net operating revenue                | \$ 63,419   | \$ 63,254   | \$ 165             | 0.3               | %       |
| Station operating expense            | 47,076  | 46,446      | 630                | 1.4               | %       |
| Corporate general and administrative | 5,065   | 4,273       | 792                | 18.5              | %       |
| Other operating (income) expense     | 14  | —           | 14                 | N/M               |         |
| Operating income                     | 11,264  | 12,535      | (1,271)            | )                 | (10.1)% |
| Interest expense                     | 485   | 544         | (59)               | )                 | (10.9)% |
| Other (income) expense, net          | (417)   | (45)        | (372)              | )                 | N/M     |
| Income tax provision                 | 4,591   | 4,820       | (229)              | )                 | (4.8)%  |
| Net income                           | \$ 6,605  | \$ 7,216    | \$ (611)           | )                 | (8.5)%  |
| Earnings per share (diluted)         | \$ 1.13   | \$ 1.24     | \$ (.11)           | )                 | (8.9)%  |

**Radio Broadcasting Segment**

|                                  | <b>Six Months Ended</b>                   |             | <b>\$ Increase</b> | <b>% Increase</b> |   |
|----------------------------------|---|-------------|--------------------|-------------------|---|
|                                  | <b>June 30, 2015</b>                      | <b>2014</b> | <b>(Decrease)</b>  | <b>(Decrease)</b> |   |
|                                  | <b>(In thousands, except percentages)</b> |             |                    |                   |   |
| Net operating revenue            | \$53,293                                  | \$53,776    | \$ (483 )          | (0.9 )            | % |
| Station operating expense        | 40,241                                    | 39,939      | 302                | 0.8               | % |
| Other operating (income) expense | 14  | —           | 14                 | N/M               |   |
| Operating income                 | \$13,038                                  | \$13,837    | \$ (799 )          | (5.8 )            | % |

**Television Broadcasting Segment**

|                                  | <b>Six Months Ended</b>                   |             | <b>\$ Increase</b> | <b>% Increase</b> |   |
|----------------------------------|---|-------------|--------------------|-------------------|---|
|                                  | <b>June 30, 2015</b>                      | <b>2014</b> | <b>(Decrease)</b>  | <b>(Decrease)</b> |   |
|                                  | <b>(In thousands, except percentages)</b> |             |                    |                   |   |
| Net operating revenue            | \$10,126                                  | \$9,478     | \$ 648             | 6.8               | % |
| Station operating expense        | 6,835                                     | 6,507       | 328                | 5.0               | % |
| Other operating (income) expense | —   | —           | —                  | —                 |   |
| Operating income                 | \$3,291                                   | \$2,971     | \$ 320             | 10.8              | % |

N/M = Not Meaningful

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

|  | <b>Radio</b>          | <b>Television</b> | <b>Corporate and Other</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------|----------------------------|---------------------|
|  | <b>(In thousands)</b> |                   |                            |                     |
| <b>Six Months Ended June 30, 2015:</b> |                       |                   |                            |                     |
| Net operating revenue                  | \$53,293              | \$ 10,126         | \$ —                       | \$ 63,419           |
| Station operating expense              | 40,241                | 6,835             | —                          | 47,076              |
| Corporate general and administrative   | —                     | —                 | 5,065                      | 5,065               |

|                                  |          |          |             |           |
|----------------------------------|----------|----------|-------------|-----------|
| Other operating (income) expense | 14       | —        | —           | 14        |
| Operating income (loss)          | \$13,038 | \$ 3,291 | \$ (5,065 ) | \$ 11,264 |

|  | <b>Radio</b>          | <b>Television</b> | <b>Corporate<br/>and Other</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------|--------------------------------|---------------------|
|  | <b>(In thousands)</b> |                   |                                |                     |
| <b>Six Months Ended June 30, 2014:</b> |                       |                   |                                |                     |
| Net operating revenue                  | \$53,776              | \$ 9,478          | \$ —                           | \$ 63,254           |
| Station operating expense              | 39,939                | 6,507             | —                              | 46,446              |
| Corporate general and administrative   | —                     | —                 | 4,273                          | 4,273               |
| Other operating (income) expense       | —                     | —                 | —                              | —                   |
| Operating income (loss)                | \$13,837              | \$ 2,971          | \$ (4,273 )                    | \$ 12,535           |



***Consolidated***

For the six months ended June 30, 2015, consolidated net operating revenue was \$63,419,000 compared with \$63,254,000 for the six months ended June 30, 2014, an increase of \$165,000 or less than 1%. Gross retransmission revenue, and gross interactive revenue increased \$711,000, and \$295,000 respectively and agency commissions decreased \$317,000 from 2014. These improvements to net revenue were offset by decreases in gross national revenue, gross local revenue and gross political revenue of \$472,000, \$450,000 and \$245,000 respectively from 2014. The increase in gross retransmission revenue was due to increases in both of our television markets during 2015. Gross interactive revenue increased due to increases in our Clarksville, Tennessee, Columbus, Ohio, and Manchester, New Hampshire markets. The decrease in agency commissions, gross national revenue and gross local revenue are primarily related to the sale of our Michigan and Minnesota radio networks in 2014. The decrease in gross political revenue was due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Station operating expense was \$47,076,000 for the six months ended June 30, 2015, compared with \$46,446,000 for the six months ended June 30, 2014, an increase of \$630,000 or 1.4%. The increase is primarily a result of an increase in ratings licensing agreements of \$1,260,000 and an increase in retransmission fees of \$157,000 partially offset by a decrease in compensation costs of \$478,000 primarily due to the sale of our Michigan and Minnesota radio networks in 2014 and a decrease in healthcare costs of \$296,000.

Operating income for the six months ended June 30, 2015 was \$11,264,000 compared to \$12,535,000 for the six months ended June 30, 2014, a decrease of \$1,271,000 or 10.1%. The decrease was a result of the increase in station operating expense offset by an increase in net operating revenue, described above and an increase in our corporate general and administrative expenses of \$792,000 or 18.5%, from 2014. The increase in corporate expenses is due to increases in non-cash compensation related to the amortization of restricted stock grants of \$448,000, an increase in consulting fees of \$119,000, an increase in travel expenses of \$89,000, an increase in computer software fees of \$51,000, an increase in compensation related expenses of \$41,000, and an increase in accounting and auditing fees of \$34,000.

We generated net income of \$6,605,000 (\$1.13 per share on a fully diluted basis) during the six months ended June 30, 2015, compared to \$7,216,000 (\$1.24 per share on a fully diluted basis) for the six months ended June 30, 2014, a decrease of \$611,000 or 8.5%. We had a decrease in operating income of \$1,271,000, as described above, offset by an increase in other income of \$372,000 primarily attributable to a gain recognized from insurance proceeds related to lightning damage to two of our transmitters, a decrease in income tax expense of \$229,000 and a decrease in interest expense of \$59,000 driven by a decrease in average debt outstanding.

***Radio Segment***

For the six months ended June 30, 2015, net operating revenue of the radio segment was \$53,293,000 compared with \$53,776,000 for the six months ended June 30, 2014, which represents a decrease of \$483,000 or less than 1%. Gross local revenue, gross national revenue and gross political revenue decreased \$645,000, \$337,000 and \$165,000 respectively from 2014. These decreases were offset by an increase in gross interactive revenue of \$306,000 and a decrease in agency commissions of \$308,000 from 2014. The decrease in gross national revenue, gross local revenue and agency commissions are primarily related to the sale of our Michigan and Minnesota radio networks in 2014. The decrease in gross political revenue was due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets. Gross interactive revenue increased due to increases in our Clarksville, Tennessee, Columbus, Ohio, and Manchester, New Hampshire markets.

Station operating expense for the radio segment was \$40,241,000 for the six months ended June 30, 2015, compared with \$39,939,000 for the six months ended June 30, 2014, an increase of \$302,000 or less than 1%. The increase is primarily a result of an increase in ratings licensing agreements of \$1,260,000 and an increase in interactive media costs of \$59,000 partially offset by a decrease in compensation costs of \$562,000 primarily due to the sale of our Michigan and Minnesota radio networks in 2014, a decrease in healthcare costs of \$254,000 and a decrease in advertising and promotion costs of \$186,000.

Operating income in the radio segment decreased \$799,000 or 5.8% to \$13,038,000 for the six months ended June 30, 2015, from \$13,837,000 for the six months ended June 30, 2014. The decrease was a result of the decrease in net operating revenue and the increase in station operating expense, as described above.

### ***Television Segment***

For the six months ended June 30, 2015, net operating revenue of our television segment was \$10,126,000 compared with \$9,478,000 for the six months ended June 30, 2014, an increase of \$648,000 or 6.8% which was primarily related to gross retransmission revenue.

Station operating expense in the television segment for the six months ended June 30, 2015 was \$6,835,000, compared with \$6,507,000 for the six months ended June 30, 2014, an increase of \$328,000 or 5%. The increase is primarily a result of an increase in retransmission fees of \$157,000, an increase in compensation costs of \$84,000, an increase in sales related incentives of \$46,000, an increase in trade expense of \$32,000 and an increase in program rental of \$30,000.

Operating income in the television segment for the six months ended June 30, 2015 was \$3,291,000 compared with \$2,971,000 for the six months ended June 30, 2014, an increase of \$320,000 or 10.8%. The increase was a result of the increase in net operating revenue partially offset by the increase in station operating expense, described above.

### **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 2015 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 Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

### **Liquidity and Capital Resources**

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

Our credit facility providing availability up to \$120 million at June 30, 2015 (the “Credit Facility”) consists of a \$30 million term loan (the “Term Loan”) and a \$90 million revolving loan (the “Revolving Credit Facility”) and matures on May 31, 2018.

We had \$85 million of unused borrowing capacity under the Revolving Credit Facility at June 30, 2015. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Credit Facility permits up to \$35 million, annually, in aggregate amount for additional business acquisitions and also permits the Company to pay dividends, distributions and stock redemptions, subject to certain terms and conditions as set forth in the Credit Facility in further detail.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses. As of June 30, 2015, we have no required amortization payment.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (0.1866% at June 30, 2015 and 0.16925% at December 31, 2014) plus 1.25% to 2.25% or the base rate plus 0.25% to 1.25%. 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 0.25% to 0.35% per annum on the unused portion of the Revolving Credit Facility.

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.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at June 30, 2015) 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.

In 2003, we entered into an agreement of understanding with Surtsey Media, LLC (“Surtsey Media”), a wholly-owned subsidiary of Surtsey Productions, Inc., whereby we have guaranteed up to \$1,250,000 of the debt incurred in closing the acquisition of a construction permit for KFJX-TV station in Pittsburg, Kansas, a full power Fox affiliate serving Joplin, Missouri. At June 30, 2015, there was \$1,078,000 of debt outstanding under this agreement. The loan agreement was amended in April, 2014 to extend the due date of the loan for three years to mature on May 1, 2017. We do not have any recourse provision in connection with our guarantee that would enable us to recover any amounts paid under the guarantee. As a result, at June 30, 2015, we have recorded \$1,078,000 in debt and \$1,000,000 in intangible assets, primarily broadcast licenses. In consideration for the guarantee, Surtsey Media entered into various agreements with us relating to the stations.

### *Sources and Uses of Cash*

During the six months ended June 30, 2015 and 2014, we had net cash flows from operating activities of \$12,833,000 and \$11,811,000, 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.

Our capital expenditures, exclusive of acquisitions, for the six months ended June 30, 2015 were \$2,254,000 (\$2,914,000 in 2014). We anticipate capital expenditures in 2015 to be approximately \$5 – 5.5 million, which we expect to finance through funds generated from operations.

On March 25, 2015, the Company’s Board of Directors declared a regular quarterly cash dividend of \$0.20 per share on its Classes A and B Common Stock. This dividend, totaling \$1.2 million, was paid on April 17, 2015 to shareholders of record on April 6, 2015 and funded by cash on the Company’s balance sheet.

On June 10, 2015, the Company’s Board of Directors declared a regular cash dividend of \$0.20 per share on its Classes A and B Common Stock. This dividend, totaling \$1.2 million, was paid on July 10, 2015 to shareholders of record on June 22, 2015 and fund by cash on the Company’s balance sheet.

The following transactions were either pending at June 30, 2015 or were entered into subsequent to that date:

On May 5, 2015, we entered into an agreement to purchase two FM stations (WSIG-FM and WBOP-FM) serving the Harrisonburg, Virginia market for approximately \$1,335,000. FCC Rules prohibit us from owning both of these stations and we intend to donate WBOP-FM to a charitable organization. This transaction is subject to the approval of the FCC and we expect to close on the acquisition in the third quarter of 2015. We expect to finance this acquisition through funds generated from operations.

On August 1, 2015, we acquired two AM and three FM stations and one FM translator (WSVA-AM, WHBG-AM, WQPO-FM, WJDV-FM, WTGD-FM and W221CF- FX) serving the Harrisonburg, Virginia market for approximately \$9,640,000. We financed this transaction with cash on hand.

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, 2014.

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, 2014.

## **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, 2014 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2014 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, 2015, 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, 2015. Shares repurchased during the quarter were from the retention of shares for cashless exercise of stock options and the payment of the related withholding taxes related to those stock option exercises.

| <b>Period</b>            | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Program</b> | <b>Approximate Dollar Value of Shares that May Yet be Purchased Under the Program(a)</b> |
|--------------------------|---|-------------------------------------|---|--|
| April 1 – April 30, 2015 | —                                       | \$—                                 | —   | \$29,615,784   |
| May 1 – May 31, 2015     | 21,519                                  | \$39.30                             | —   | \$28,770,087   |
| June 1 – June 30, 2015   | —                                       | \$—                                 | —   | \$28,770,087   |
| Total                    | —                                       | \$—                                 | —   | \$28,770,087   |

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

**Item 6. Exhibits**

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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 Act 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.

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

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**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 7,  
2015

/s/ SAMUEL D. BUSH

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

Date: August 7,  
2015

/s/ CATHERINE A. BOBINSKI

Catherine A. Bobinski

*Senior Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)*