MARTIN JOHN C
Form 4
February 01, 2010

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
| Expires: | January 31, 2005 |
| Estimated average burden hours per response... | 0.5 |

(Print or Type Responses)

1. Name and Address of Reporting Person *
MARTIN JOHN C

(Last) (First) (Middle)

GILEAD SCIENCES, INC., 333 LAKESIDE DRIVE

(Street)

FOSTER CITY, CA 94404

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
GILEAD SCIENCES INC [GILD]

3. Date of Earliest Transaction (Month/Day/Year)
01/28/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security | 2. Conversion or Exercise | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any | 4. Transaction Code | 5. Number of Derivative Securities | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amou Underlying Secur (Instr. 3 and 4) |
|---|---|---|---|---|---|---|---|

| (Instr. 3) | Price of Derivative Security | | (Month/Day/Year) | (Instr. 8) | | Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Am Nu Sha |
| Non-Qualified Stock Options (right to buy) | $ 47.51 | 01/28/2010 | | A | | 318,000 | | (1) | 01/28/2020 | Common Stock | 31 |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| MARTIN JOHN C<br>GILEAD SCIENCES, INC.<br>333 LAKESIDE DRIVE<br>FOSTER CITY, CA 94404 | X | | Chairman and CEO | |

# Signatures

| | |
|---|---|
| /s/ John C. Martin | 02/01/2010 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** The options have a five year vesting schedule. 20% of the options will vest on January 28, 2011 the first anniversary date of the grant. The balance will vest 5% every three months thereafter until fully vested on January 28, 2015.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 0pt">Controls and Procedures 32

**Table of Contents**

## PART I FINANCIAL INFORMATION

**Item 1. *Financial Statements***

### SAGA COMMUNICATIONS, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2006 (Unaudited) | December 31, 2005 (Note) |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 8,972** | $ 15,168 |
| Accounts receivable, net | **23,195** | 22,998 |
| Prepaid expenses and other current assets | **5,694** | 5,596 |
| Total current assets | **37,861** | 43,762 |
| Property and equipment | **142,672** | 137,208 |
| Less accumulated depreciation | **72,130** | 67,539 |
| Net property and equipment | **70,542** | 69,669 |
| Other assets: | | |
| Broadcast licenses, net | **149,774** | 148,925 |
| Goodwill, net | **49,596** | 48,762 |
| Other intangibles, deferred costs and investments, net | **12,375** | 7,747 |
| Total other assets | **211,745** | 205,434 |
| | **$ 320,148** | $ 318,865 |

*See notes to unaudited condensed consolidated financial statements.*

3

**Table of Contents**

**SAGA COMMUNICATIONS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2006 (Unaudited) | December 31, 2005 (Note) |
|---|---|---|
| | (In thousands) | |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | **$ 1,291** | $ 1,245 |
| Payroll and payroll taxes | **6,148** | 7,063 |
| Other accrued expenses | **6,523** | 4,145 |
| Barter transactions | **2,125** | 1,691 |
| Current portion of long-term debt | | 7,000 |
| Total current liabilities | **16,087** | 21,144 |
| Deferred income taxes | **29,860** | 26,174 |
| Long-term debt | **136,911** | 141,911 |
| Other liabilities | **3,726** | 3,812 |
| **Stockholders equity:** | | |
| Common stock | **213** | 212 |
| Additional paid-in capital | **48,680** | 48,639 |
| Retained earnings | **97,462** | 88,685 |
| Treasury stock | **(12,791)** | (11,002) |
| Unearned compensation on restricted stock | | (710) |
| Total stockholders equity | **133,564** | 125,824 |
| | **$ 320,148** | $ 318,865 |

Note: The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

*See notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

**SAGA COMMUNICATIONS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | (Unaudited) (In thousands, except per share data) | | | |
| Net operating revenue | **$ 35,791** | $ 35,961 | **$ 104,727** | $ 105,345 |
| Station operating expense | **25,761** | 26,110 | **76,833** | 77,464 |
| Corporate general and administrative | **2,225** | 1,934 | **6,705** | 6,060 |
| Operating income | **7,805** | 7,917 | **21,189** | 21,821 |
| Other expenses, net: | | | | |
| Interest expense | **2,375** | 2,082 | **7,007** | 5,511 |
| Other (income) expense | **(75)** | (35) | **(645)** | 1,503 |
| Income before income tax | **5,505** | 5,870 | **14,827** | 14,807 |
| Income tax provision | **2,241** | 2,430 | **6,050** | 6,130 |
| Net income | **$ 3,264** | $ 3,440 | **$ 8,777** | $ 8,677 |
| Earnings per share: | | | | |
| Basic | **$ .16** | $ .17 | **$ .43** | $ .42 |
| Diluted | **$ .16** | $ .17 | **$ .43** | $ .42 |
| Weighted average common shares | **20,488** | 20,453 | **20,515** | 20,489 |
| Weighted average common and common equivalent shares | **20,502** | 20,631 | **20,532** | 20,726 |

*See notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

**SAGA COMMUNICATIONS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| **Cash flows from operating activities:** | | |
| Cash provided by operating activities | **$ 19,600** | $ 19,012 |
| **Cash flows from investing activities:** | | |
| Acquisition of property and equipment | **(6,836)** | (9,054) |
| Proceeds from sale of assets | **1,007** | 367 |
| Increase in intangibles and other assets | **(4,775)** | (936) |
| Acquisition of stations | **(779)** | (31,577) |
| Net cash used in investing activities | **(11,383)** | (41,200) |
| **Cash flows from financing activities:** | | |
| Proceeds from long-term debt | | 34,750 |
| Payments on long-term debt | **(12,000)** | |
| Payments for debt issuance costs | **(350)** | |
| Purchase of shares held in treasury | **(2,131)** | (7,433) |
| Net proceeds from exercise of stock options | **68** | 202 |
| Net cash (used in) provided by financing activities | **(14,413)** | 27,519 |
| Net (decrease) increase in cash and cash equivalents | **(6,196)** | 5,331 |
| Cash and cash equivalents, beginning of period | **15,168** | 9,113 |
| Cash and cash equivalents, end of period | **$ 8,972** | $ 14,444 |

*See notes to unaudited condensed consolidated financial statements.*

Table of Contents

## SAGA COMMUNICATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

***Basis of Presentation***

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of September 30, 2006 and the results of operations for the three and nine months ended September 30, 2006 and 2005. Results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

For further information, refer to the consolidated financial statements and notes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2005.

***Income Taxes***

Our effective tax rate is higher than the federal statutory rate as a result of certain non-deductible depreciation and amortization expenses and the inclusion of state taxes in the income tax amount.

***Revenue Recognition***

Revenue from the sale of commercial broadcast time to advertisers is recognized when commercials are broadcast. Revenue is reported net of advertising agency commissions. Agency commissions, when applicable, are based on a stated percentage applied to gross billing.

***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 Federal Communications Commission ( FCC ) licensee of a station makes available, for a fee, blocks of air time on its station to another party that supplies programming to be broadcast during that air time and sells its own commercial advertising announcements during the time periods specified. We account for TBA s/LMA s under SFAS 13, Accounting for Leases and related interpretations. Revenue and expenses related to TBA s/LMA s are included in the accompanying Condensed Consolidated Statements of Income.

***Stock-Based Compensation***

On January 1, 2006, we adopted the Revised Statement of Financial Accounting Standard No. 123, Share-Based Payment ( SFAS 123R ). SFAS 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either an equity instrument of the company (typically stock options) or liabilities that are based on the grant date fair value of the award. The statement eliminates the ability to account for share-based compensation transactions, as we formerly did, using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of income.

We adopted SFAS 123R using the modified prospective transition method which requires the application of the accounting standard as of January 1, 2006. Our 2006 consolidated financial statements reflect the impact of adopting SFAS 123R. In accordance with the modified prospective transition method, the consolidated

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

financial statements for prior periods have not been restated to reflect, and do not include the impact of SFAS 123R. See Note 7 Stock-Based Compensation for further details.

Stock-based compensation expense recognized during the period is based on the fair value of the portion of stock-based payment awards that is ultimately expected to vest using the Black-Scholes option-pricing model. Stock-based compensation expense recognized in the condensed consolidated statement of income during 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested, as of January 1, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 148 ( SFAS 148 ), Accounting for Stock-Based Compensation Transition and Disclosure, and compensation expense for the stock-based payment awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123R. As stock-based compensation expense recognized in the condensed consolidated statement of income for the three and nine months ended September 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information required under SFAS 148 for the periods prior to 2006, we accounted for forfeitures as they occurred.

**2. Recent Accounting Pronouncements**

On September 15, 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for more information about: (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective January 1, 2008. We are currently evaluating the impact of SFAS No. 157 and its effect on our financial position, results of operations or cash flows.

On September 13, 2006, the SEC issued Staff Accounting Bulletin ( SAB ) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides guidance on the consideration of effects of the prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The SEC staff believes registrants must quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective in our fourth quarter of 2006. We are currently assessing the impact of this pronouncement, if any, on our financial position, results of operations or cash flows.

On July 13, 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, Accounting for Uncertainty in Income Taxes and Related Implementation Issues that provides guidance on the financial statement recognition, measurement, and presentation and disclosure of certain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, financial statements should reflect expected future tax consequences of such positions presuming the taxing authorities have full knowledge of the position and all relevant facts. FIN 48 also revises the disclosure requirements and is effective for the Company as of January 1, 2007. We are currently evaluating FIN 48 and its effect on our financial position, results of operations and cash flows.

On October 6, 2005, the FASB issued FASB Staff Position ( FSP ) No. FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period*. Under FSP No. FAS 13-1, rental costs associated with ground or building operating leases, that are incurred during a construction period, shall be recognized as rental expense and included in income from continuing operations. The guidance in this FSP was effective January 1,

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2006. The adoption of FSP No. FAS 13-1 did not have a material on our financial position, results of operations or cash flows.

On June 1, 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a Replacement of APB Opinion No. 20 and FASB Statement No. 3 ( SFAS 154 ). SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle, as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 did not have a material impact on our financial position, results of operations or cash flows.

### 3. Intangible Assets and Goodwill

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

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

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

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

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

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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 September 30, 2006:

| | Common Stock Issued | |
|---|---|---|
| | Class A | Class B |
| | (Shares in thousands) | |
| Balance, January 1, 2005 | 18,699 | 2,360 |
| Exercised options | 42 | |
| Issuance of restricted stock | 51 | 9 |
| Balance, December 31, 2005 | 18,792 | 2,369 |
| Exercised options | 8 | 5 |
| Issuance of restricted stock | 91 | 21 |
| Balance, September 30, 2006 | 18,891 | 2,395 |

We have a Stock Buy-Back Program (the Buy-Back Program ) to allow us to purchase up to $30,000,000 of our Class A Common Stock. From its inception in 1998 through September 30, 2006, we have repurchased 1,727,089 shares of our Class A Common Stock for approximately $24,769,000.

On September 13, 2006 we entered into an agreement with a third party broker to repurchase Class A Common Stock under our Buy-Back Program in compliance with the guidelines and limitations of Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The agreement ended on November 8, 2006.

**5. Total Comprehensive Income and Accumulated Other Comprehensive Income**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| **Total Comprehensive Income Consists of:** | | | | |
| Net income | **$ 3,264** | $ 3,440 | **$ 8,777** | $ 8,677 |
| Accumulated other comprehensive income (loss): | | | | |
| Change in market value of securities, net of tax | | | | 2 |
| Gain realized on sale of securities, net of tax | | | | (62) |

| | | | | |
|---|---|---|---|---|
| Total comprehensive income | **$ 3,264** | $ 3,440 | **$ 8,777** | $ 8,617 |

**6. Acquisitions**

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 costs were allocated to the acquired assets and assumed liabilities based on their estimated fair values as of the acquisition dates. The excess of consideration paid over the estimated fair value of net assets acquired has been recorded as goodwill, which is deductible for tax purposes.

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Pending Acquisitions***

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

On August 28, 2006, we entered into an agreement to acquire an FM radio station (WCNR-FM) serving the Charlottesville, Virginia market for $3,250,000. On September 1, 2006 we began providing programming under an LMA to WCNR-FM. The transaction is subject to FCC approval and we expect to close on the acquisition in the first quarter of 2007.

On October 5, 2006, we entered into an agreement to acquire one AM and one FM (WKRT-AM and WIII-FM) radio stations licensed to Cortland, New York and serving the Ithaca, New York market for approximately $4,000,000. This transaction is subject to FCC approval and we expect to close on this acquisition in the first quarter 2007.

***2006 Acquisition***

On August 7, 2006, we acquired one FM radio station (WCTU-FM) serving the Tazwell, Tennessee market for approximately $779,000. This station has filed for FCC approval to relocate its tower to Weaverville, North Carolina (serving the Asheville, North Carolina market). When this relocation occurs, we will owe an additional $3,350,000.

***2005 Acquisitions***

On November 22, 2005, we acquired one AM radio station (WVAX-AM) serving the Charlottesville, Virginia market for approximately $151,000.

Effective June 1, 2005, we acquired two FM and two AM radio stations (WQNY-FM, WYXL-FM, WNYY-AM and WHCU-AM) serving the Ithaca, New York market for approximately $13,610,000. We financed this transaction through funds generated from operations and additional borrowings of approximately $11,000,000 under our Credit Agreement and the re-issuance of approximately $2,602,000 of our Class A common stock. Final order from the FCC is still pending on this acquisition.

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

Effective January 1, 2005, we acquired one AM radio station (WISE-AM) serving the Asheville, North Carolina market for approximately $2,192,000.

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

***Condensed Consolidated Balance Sheet of 2006 and 2005 Acquisitions:***

The following unaudited condensed balance sheets represent the estimated fair value assigned to the related assets and liabilities of the 2006 and 2005 acquisitions at their respective acquisition dates. In connection with the 2005 acquisitions, we issued Class A common stock of approximately $4,588,000.

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**Saga Communications, Inc.**

**Condensed Consolidated Balance Sheet of 2006 and 2005 Acquisitions**

| | Acquisitions in 2006 | 2005 |
|---|---|---|
| | (In thousands) | |
| **Assets Acquired:** | | |
| Current assets | $ | $ 2,542 |
| Property and equipment | 10 | 4,783 |
| Other assets: | | |
| Broadcast licenses-Radio segment | | 18,909 |
| Broadcast licenses-Television segment | | 157 |
| Goodwill-Radio segment | 769 | 12,479 |
| Goodwill-Television segment | | 67 |
| Other intangibles, deferred costs and investments | | 117 |
| Total other assets | 769 | 31,729 |
| Total assets acquired | 779 | 39,054 |
| **Liabilities Assumed:** | | |
| Current liabilities | | 2,737 |
| Total liabilities assumed | | 2,737 |
| Net assets acquired | $ 779 | $ 36,317 |

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

The following unaudited pro forma results of our operations for the three and nine months ended September 30, 2006 and 2005 assume the 2005 acquisitions occurred as of January 1, 2005. The 2006 acquisition and LMA are start up stations and therefore, have no pro forma revenue and expenses. The pro forma results give effect to certain adjustments, including depreciation, amortization of intangible assets, increased interest expense on acquisition debt and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations which would actually have occurred had the combinations been in effect on the dates indicated or which may occur in the future.

Table of Contents

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| **Consolidated Results of Operations** | | | | |
| Net operating revenue | **$ 35,791** | $ 35,961 | **$ 104,727** | $ 106,358 |
| Station operating expense | **25,761** | 26,110 | **76,833** | 78,421 |
| Corporate general and administrative | **2,225** | 1,934 | **6,705** | 6,060 |
| Operating income | **7,805** | 7,917 | **21,189** | 21,877 |
| Interest expense | **2,375** | 2,082 | **7,007** | 5,731 |
| Other (income) expense, net | **(75)** | (35) | **(645)** | 1,488 |
| Income taxes | **2,241** | 2,430 | **6,050** | 6,073 |
| Net income | **$ 3,264** | $ 3,440 | **$ 8,777** | $ 8,585 |
| Basic earnings per share | **$ .16** | $ .17 | **$ .43** | $ .42 |
| Diluted earnings per share | **$ .16** | $ .17 | **$ .43** | $ .41 |

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Radio Broadcasting Segment** | | | | |
| Net operating revenue | **$ 31,402** | $ 32,263 | **$ 92,100** | $ 95,253 |
| Station operating expense | **22,300** | 22,728 | **66,675** | 68,410 |
| Operating income | **$ 9,102** | $ 9,535 | **$ 25,425** | $ 26,843 |

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Television Broadcasting Segment** | | | | |
| Net operating revenue | **$ 4,389** | $ 3,698 | **$ 12,627** | $ 11,105 |

| | | | | |
|---|---|---|---|---|
| Station operating expense | **3,461** | 3,382 | **10,158** | 10,011 |
| Operating income | **$ 928** | $ 316 | **$ 2,469** | $ 1,094 |

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

| | **Radio** | **Television** | **Corporate and Other** | **Consolidated** |
|---|---|---|---|---|
| | | **(In thousands)** | | |
| **Three Months Ended September 30, 2006:** | | | | |
| Net operating revenue | **$ 31,402** | **$ 4,389** | **$** | **$ 35,791** |
| Station operating expense | **22,300** | **3,461** | | **25,761** |
| Corporate general and administrative | | | **2,225** | **2,225** |
| Operating income (loss) | **$ 9,102** | **$ 928** | **$ (2,225)** | **$ 7,805** |

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | Radio | Television | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Nine Months Ended September 30, 2006:** | | | | |
| Net operating revenue | **$ 92,100** | **$ 12,627** | **$** | **$ 104,727** |
| Station operating expense | **66,675** | **10,158** | | **76,833** |
| Corporate general and administrative | | | **6,705** | **6,705** |
| Operating income (loss) | **$ 25,425** | **$ 2,469** | **$ (6,705)** | **$ 21,189** |

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

**7. Stock-Based Compensation**

***Employee Stock Purchase Plan***

We have an employee stock purchase plan (ESPP) for all eligible employees. Each quarter, an eligible employee may elect to withhold up to 10 percent of his or her compensation, up to a maximum of $5,000, to purchase shares of our stock at a price equal to 85% of the fair value of the stock as of the last day of such quarter. The ESPP will terminate on the earlier of the issuance of 1,562,500 shares pursuant to the ESPP or December 31, 2008. Approximately 19,217 and 18,190 shares were purchased under the ESPP during the nine months ended September 30, 2006 and 2005, respectively. Our ESPP is deemed non-compensatory under the provisions of FAS 123R.

***2005 Incentive Compensation Plan***

On May 9, 2005, our stockholders approved the 2005 Incentive Compensation Plan (the 2005 Plan ) which replaces our 2003 Stock Option Plan (the 2003 Plan ) as to future grants. The 2005 Plan extends through March 2015 and allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to officers and a selected number of employees. The number of shares of Common Stock that may be issued under the 2005 Plan may not exceed 500,000 shares of Class B Common Stock, 1,500,000 shares of Class A Common Stock of which up to

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

500,000 shares of Class A Common Stock may be issued pursuant to incentive stock options and 500,000 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 under the 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 Corporation. Stock options granted under the 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.

***2003 Stock Option Plan***

In 2003, we adopted the 2003 Plan, upon expiration of our 1992 Stock Option Plan (the 1992 Plan ) in December 2002, pursuant to which our key employees, including directors who are employees, were eligible to receive grants of options to purchase our Class A Common Stock or Class B Common Stock. Options granted under the 2003 Plan were either incentive stock options (within the meaning of Section 422A of the Internal Revenue Code of 1986) or non-qualified options. Options for Class A Common Stock could be granted to any employee of the Corporation. Options for Class B Common Stock could 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 Corporation. With the approval of the 2005 Plan, the 2003 Plan was terminated as to future grants, therefore the shares available for future grants under the 2003 Plan are no longer available.

***1997 Non-Employee Director Stock Option Plan***

In 1997, we adopted the 1997 Non-Employee Director Stock Option Plan (the Directors Plan ) pursuant to which our directors who are not our employees are eligible to receive options. Under the terms of the Directors Plan, on the last business day of January of each year during the term of the Directors Plan, in lieu of their directors retainer for the previous year, each eligible director shall automatically be granted an option to purchase that number of our shares of Class A Common Stock equal to the amount of the retainer divided by the fair market value of our Common Stock on the last trading day of the December immediately preceding the date of grant less $.01 per share. The option exercise price is $.01 per share. Options granted under the Directors Plan are non-qualified stock options, shall be immediately vested and become exercisable at the written election of the director. The options expire on the earlier of (i) 10 years from the date of grant or (ii) the March 16th following the calendar year in which they first become exercisable. This plan expires on May 12, 2007.

***Impact of the adoption of the SFAS 123R***

We adopted SFAS 123R using the modified prospective transition method beginning January 1, 2006. Accordingly, during the three and nine months ended September 30, 2006, we recorded stock-based compensation expense for awards granted prior to, but not yet vested, as of January 1, 2006, as if the fair value method required for pro forma disclosure under SFAS 123 were in effect for expense recognition purposes, adjusted for estimated forfeitures. For stock-based awards granted after January 1, 2006, we have recognized compensation expense based on the estimated grant date fair value method using the Black-Scholes valuation model. For these awards, we have recognized compensation expense using a straight-line amortization method. As SFAS 123R requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for the three and nine months ended September 30, 2006 has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors as well as trends of actual option forfeitures. The compensation expense recognized in corporate general and administrative expense of our results of operations for the three and nine months ended

15

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

September 30, 2006 were approximately $229,000 and $556,000, respectively. The associated future income tax benefit recognized for the three and nine months ended September 30, 2006 were approximately $94,000 and $228,000, respectively.

We calculated the fair value of the each option award on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for each respective period:

| | 2006 Grants | 2005 Grants |
|---|---|---|
| Weighted average grant date fair value per share | $ 4.49 | $ 6.91 |
| Expected volatility | 37.19% | 37.14% |
| Expected term of options (years) | 7.8 | 7.6 |
| Risk-free interest rate | 4.27% | 3.96% |
| Dividend yield | 0% | 0% |
| Forfeiture rate | 2.47% | 2.57% |

The estimated expected volatility, expected term of options and estimated annual forfeiture rate were determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The following summarizes the stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2006:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2005 | 2,068,950 | $ 13.97 | 4.9 | |
| Granted | 506,138 | 9.00 | 9.7 | |
| Exercised | (9,762) | 5.83 | | |
| Forfeited/canceled | (7,946) | 11.84 | | |
| Outstanding at September 30, 2006 | 2,557,380 | $ 13.03 | 5.2 | $ 6,788 |
| Exercisable at September 30, 2006 | 1,844,145 | $ 13.98 | 3.6 | $ 6,788 |

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the nine months ended September 30, 2006:

| | Number of Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2005 | 268,786 | $ 6.91 |
| Granted | 506,138 | 4.49 |
| Vested | (53,743) | 6.89 |
| Forfeited/canceled | (7,946) | 5.79 |
| Non-vested at September 30, 2006 | 713,235 | $ 5.20 |

16

Table of Contents

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following summarizes the restricted stock transactions for the nine months ended September 30, 2006:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2005 | 59,728 | $ 14.25 |
| Granted | 112,471 | 9.00 |
| Vested | (11,936) | 14.25 |
| Forfeited | (1,765) | 11.84 |
| Non-vested and outstanding at September 30, 2006 | 158,498 | $ 10.55 |

For the three and nine months ended September 30, 2006, we had approximately $93,000 and $246,000, respectively, of total compensation expense related to restricted stock-based arrangements. At December 31, 2005, we recorded $710,000 of unrecognized compensation cost on restricted stock as a deduction of stockholders equity. On September 30, 2006, this amount was reclassified to additional paid-in capital in accordance with SFAS 123R.

The following summarizes the stock option transactions for the Directors Plans for the nine months ended September 30, 2006:

| | Number of Options | Weighted Average Price per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at December 31, 2005 | 12,193 | $ 0.008 | |
| Granted | 13,242 | 0.010 | |
| Exercised | (3,122) | 0.010 | |
| Forfeited | | | |
| Outstanding and exercisable at September 30, 2006 | 22,313 | $ 0.009 | $ 172,500 |

***Pro forma Information for Periods Prior to the Adoption of SFAS 123R***

Prior to the adoption of SFAS 123R, we provided the disclosures required under SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosures. Employee stock-based compensation expense recognized under SFAS 123R was not reflected in our results of operations for the three and nine months ended September 30, 2005 for employee stock option awards as all options were granted with an exercise price equal to the market value of the underlying common stock on the date of grant. Our ESPP was deemed non-compensatory under the provisions of APB No. 25. Forfeitures of awards were recognized as they occurred. Previously reported amounts have not been restated.

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The pro forma information for the three and nine months ended September 30, 2005 was as follows (in thousands, except per share amounts):

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|---|---|---|
| Net income, as reported | $ 3,440 | $ 8,677 |
| Add back: stock based compensation cost, net of tax | 25 | 56 |
| Less: pro forma stock based compensation cost determined under fair value method, net of tax | (463) | (1,387) |
| Pro forma net income | $ 3,002 | $ 7,346 |
| Pro forma earnings per share: | | |
| Basic | $ .15 | $ .36 |
| Diluted | $ .15 | $ .35 |

The fair value of our stock options was estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the three and nine months ended September 30, 2005 and consistent with the requirements of SFAS 123: risk-free interest rate of 4.0%; a dividend yield of 0%; expected volatility of 30.1%; and a weighted average expected life of the options of 7 years, respectively.

**8. Long-Term Debt**

In May 2006, we amended our current credit agreement (the Credit Agreement ) to reduce the interest rate margin for LIBOR and the Agent bank s base rate; to reduce the bank s commitment fee percentage; to increase the total Revolving Commitments to $200,000,000; and to extend the maturity date of the Revolving Commitments to July 29, 2012. Interest rates under the Credit Agreement are payable, at our option, at alternatives equal to LIBOR at the reset date (5.375% to 5.50% at September 30, 2006) plus 0.75% to 1.25% (4.563% at December 31, 2005, plus 0.75% to 1.625%) or the Agent bank s base rate plus 0% (0% to 0.375% at December 31, 2005). 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 0.375% per annum (0.375% to 0.625% per annum at December 31, 2005) on the unused portion of the Credit Agreement.

Our Credit Agreement is a $200,000,000 reducing revolving line of credit maturing on July 29, 2012. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries stock and by a guarantee of our subsidiaries. We have approximately $64,150,000 of unused borrowing capacity under the Credit Agreement at September 30, 2006.

On March 31, 2008, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2008. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. In addition, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios.

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long term debt consisted of the following:

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Credit Agreement: | | |
| Reducing revolver facility | $ 135,850 | $ 147,850 |
| Secured debt of affiliate | 1,061 | 1,061 |
| | 136,911 | 148,911 |
| Amounts paid within one year | | 7,000 |
| | $ 136,911 | $ 141,911 |

The impact of the Credit Agreement Amendment in May, 2006 on the future maturities of long-term debt at September 30, 2006 is as follows:

| Year Ending December 31, | (In thousands) |
|---|---|
| 2006 | $ |
| 2007 | |
| 2008 | |
| 2009 | 1,061 |
| 2010 | 35,850 |
| Thereafter | 100,000 |
| | $ 136,911 |

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at September 30, 2006) that, among other things, requires us to maintain specified financial ratios and impose certain limitations on us with respect to (i) the incurrence of additional indebtedness; (ii) acquisitions, except under specified conditions; (iii) the incurrence of additional liens, except those relating to capital leases and purchase money indebtedness; (iv) the disposition of assets; (v) the payment of cash dividends; and (vi) mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more restrictive over the life of the Credit Agreement. The Credit Agreement allows for the payment of dividends provided certain requirements are met.

**9. Segment Information**

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

The Radio segment includes twenty-three markets, which includes all eighty-nine of our radio stations and five radio information networks. The Television segment includes three markets and consists of five television stations and four low power television ( LPTV ) stations. The Radio and Television segments derive their revenue from the sale of commercial broadcast inventory. The category Corporate general and administrative represents the income and expense not allocated to reportable segments.

Table of Contents

**SAGA COMMUNICATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Radio | Television | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Three Months Ended September 30, 2006:** | | | | |
| Net operating revenue | **$ 31,402** | **$ 4,389** | **$** | **$ 35,791** |
| Station operating expense | **22,300** | **3,461** | | **25,761** |
| Corporate general and administrative | | | **2,225** | **2,225** |
| Operating income (loss) | **$ 9,102** | **$ 928** | **$ (2,225)** | **$ 7,805** |
| Depreciation and amortization | **$ 1,494** | **$ 409** | **$ 48** | **$ 1,951** |

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

| | Radio | Television | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Nine Months Ended September 30, 2006:** | | | | |
| Net operating revenue | **$ 92,100** | **$ 12,627** | **$** | **$ 104,727** |
| Station operating expense | **66,675** | **10,158** | | **76,833** |
| Corporate general and administrative | | | **6,705** | **6,705** |
| Operating income (loss) | **$ 25,425** | **$ 2,469** | **$ (6,705)** | **$ 21,189** |
| Depreciation and amortization | **$ 4,569** | **$ 1,215** | **$ 144** | **$ 5,928** |

| | | | | |
|---|---|---|---|---|
| Total assets | **$ 268,463** | **$ 31,986** | **$ 19,699** | **$ 320,148** |

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

20

Table of Contents

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management s Discussion and Analysis contained in our annual report on Form 10-K for the year ended December 31, 2005. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are, therefore, reflected only in our discussion of consolidated results.

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

**General**

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

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

**Radio Segment**

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

Most advertising contracts are short-term, and generally run only for a few weeks. Most of our revenue is generated from local advertising, which is sold primarily by each radio markets sales staff. For the nine months ended September 30, 2006 and 2005, approximately 85% of our gross radio segment revenue was from local advertising. To generate national advertising sales, we engage an independent advertising sales representative firm that specializes in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year.

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

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

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

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

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

During the nine month periods ended September 30, 2006 and 2005 and the years ended December 31, 2005 and 2004, our Columbus, Ohio; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 70%, 73%, 75% and 73%, respectively, of our consolidated operating income. 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. A decrease in the total available radio advertising dollars in the Columbus, Ohio and Norfolk, Virginia markets has resulted in a decline in our revenue and related operating income in our radio stations there. We are also experiencing ratings softness in each of these markets. None of our television markets represented more than 15% or more of our consolidated operating income. The following tables describe the percentage of our consolidated operating income represented by each of these markets:

| | **Percentage of Consolidated Operating Income For the Nine Months Ended September 30,** | | **Percentage of Consolidated Operating Income For the Years Ended December 31,** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2005** | **2004** |
| **Market:** | | | | |
| Columbus, Ohio | 10% | 13% | 13% | 12% |
| Manchester, New Hampshire | 15% | 13% | 15% | 14% |
| Milwaukee, Wisconsin | 33% | 33% | 33% | 32% |
| Norfolk, Virginia | 12% | 14% | 14% | 15% |

We utilize certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States of America (GAAP) to assess our financial performance. For example, we evaluate the performance of our markets based on station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization). Station operating income is generally recognized by the broadcasting industry as a measure of performance, is used by analysts who report on the performance of the broadcasting industry and it serves as an indicator of the market value of a group of stations. In addition, we use it to evaluate individual stations, market-level performance, overall operations and as a primary measure for incentive based compensation of executives and other members of

Table of Contents

management. Station operating income is not necessarily indicative of amounts that may be available to us for debt service requirements, other commitments, reinvestment or other discretionary uses. Station operating income is not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for our results of operations presented on a GAAP basis.

During the nine month periods ended September 30, 2006 and 2005 and the years ended December 31, 2005 and 2004, the radio stations in our four largest markets when combined, represented approximately 47%, 50%, 48% and 52%, 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:

| | Percentage of Consolidated Station Operating Income (*) For the Nine Months Ended September 30, | | Percentage of Consolidated Station Operating Income (*) For the Years Ended December 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2005 | 2004 |
| **Market:** | | | | |
| Columbus, Ohio | 8% | 9% | 9% | 9% |
| Manchester, New Hampshire | 10% | 9% | 9% | 10% |
| Milwaukee, Wisconsin | 21% | 22% | 21% | 22% |
| Norfolk, Virginia | 8% | 10% | 9% | 11% |

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

**Television Segment**

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

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

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

Our stations strive to maximize revenue by constantly adjusting prices for our commercial spots based upon local market conditions, demand for advertising and ratings. While there may be shifts from time to time

Table of Contents

in the number of advertisements broadcast during a particular time of the day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year. Any change in our revenue, with the exception of those instances where stations are acquired or sold, is generally the result of 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 nine months ended September 30, 2006 and 2005, approximately 81% and 79%, respectively, of our gross television 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 includes the first quarter of each year.

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

**Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005**

***Results of Operations***

The following tables summarize our results of operations for the three months ended September 30, 2006 and 2005.

**Consolidated Results of Operations**

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (In thousands, except percentages and per share information) | | | |
| Net operating revenue | $ 35,791 | $ 35,961 | $ (170) | (0.5)% |
| Station operating expense | 25,761 | 26,110 | (349) | (1.3)% |
| Corporate G&A | 2,225 | 1,934 | 291 | 15.1% |
| Operating income | 7,805 | 7,917 | (112) | (1.4)% |
| Interest expense | 2,375 | 2,082 | 293 | 14.1% |
| Other (income) expense | (75) | (35) | (40) | N/M |
| Income taxes | 2,241 | 2,430 | (189) | (7.8)% |
| Net income | $ 3,264 | $ 3,440 | $ (176) | (5.1)% |
| Earnings per share (basic and diluted) | $ .16 | $ .17 | $ (.01) | (5.9)% |

Table of Contents

**Radio Broadcasting Segment**

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (In thousands, except percentages) | | | |
| Net operating revenue | $ 31,402 | $ 32,263 | $ (861) | (2.7)% |
| Station operating expense | 22,300 | 22,728 | (428) | (1.9)% |
| Operating income | $ 9,102 | $ 9,535 | $ (433) | (4.5)% |

**Television Broadcasting Segment**

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (In thousands, except percentages) | | | |
| Net operating revenue | $ 4,389 | $ 3,698 | $ 691 | 18.7% |
| Station operating expense | 3,461 | 3,382 | 79 | 2.3% |
| Operating income | $ 928 | $ 316 | $ 612 | 193.7% |

N/M = Not Meaningful

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

| | Radio | Television | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Three Months Ended September 30, 2006:** | | | | |
| Net operating revenue | $ 31,402 | $ 4,389 | $ | $ 35,791 |
| Station operating expense | 22,300 | 3,461 | | 25,761 |
| Corporate general and administrative | | | 2,225 | 2,225 |
| Operating income (loss) | $ 9,102 | $ 928 | $ (2,225) | $ 7,805 |

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

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

***Consolidated***

For the three months ended September 30, 2006, consolidated net operating revenue was $35,791,000 compared with $35,961,000 for the three months ended September 30, 2005, a decrease of $170,000 or 0.5%. We had a decline of approximately $183,000 in revenue generated by stations that we owned or operated for the comparable period in 2005 ( same station ), offset by an increase in net operating revenue of approximately $13,000 attributable to stations we did not own and operate for the entire comparable period. The decrease in same station revenue was attributable primarily to a decrease in local revenue (excluding political) of approximately 2% and a decrease in national revenue (excluding political) of approximately 1%, offset by gross political revenue of $645,000, an increase of $568,000.

Station operating expense was $25,761,000 for the three months ended September 30, 2006, compared with $26,110,000 for the three months ended September 30, 2005, a decrease of approximately $349,000. The overall decrease was attributable to a decrease of $451,000 for those stations that we owned and operated for the entire comparable period, offset by an increase in of $102,000 for those stations we did not own or operate for the entire comparable period. The decrease in same station operating expense was due to cost cutting efforts implemented Company wide in the first quarter of 2006, primarily in advertising and promotions expense and to a decrease in amortization expense of 87% attributable to fully amortized intangible assets.

Operating income for the three months ended September 30, 2006 was $7,805,000 compared to $7,917,000 for the three months ended September 30, 2005, a decrease of approximately $112,000 or 1%. The decrease was directly attributable to the decreases in net operating revenue and station operating expense discussed above and an increase in corporate general and administrative charges of approximately $291,000 or 15%. The increase in corporate general and administrative is primarily attributable to additional charges to corporate related to an increase in stock based compensation expense.

We generated net income of approximately $3,264,000 ($.16 per share on a fully diluted basis) during the three months ended September 30, 2006, compared with $3,440,000 ($.17 per share on a fully diluted basis) for the three months ended September 30, 2005, a decrease of approximately $176,000 or 5%. The decrease was the result of the $112,000 decrease in operating income discussed above, an increase in interest expense of $293,000 offset by an increase in other income of $40,000 and a $189,000 decrease in income tax expense. The increase in interest expense resulted primarily from increased interest rates. The decrease in income tax expense is directly attributable to the decrease in pre-tax income.

***Radio Segment***

For the three months ended September 30, 2006, net operating revenue of the radio segment was $31,402,000 compared with $32,263,000 for the three months ended September 30, 2005, a decrease of $861,000 or 3%. During 2006 we had an increase in net operating revenue of approximately $13,000 attributable to stations we did not own and operate for the entire comparable period. We had a decline of approximately $874,000 or 3% in net revenue generated by radio stations that we owned or operated for the comparable period in 2005 ( same station ). The decrease in same station revenue was primarily attributable to same station local revenue decrease of approximately 4%, offset by gross political revenue of $354,000, an increase of $282,000. We had declines of approximately 14% in net operating revenue in each of our Des Moines, Iowa and Norfolk, Virginia markets, primarily attributable to ratings softness with one of our stations in each of these markets.

Station operating expense for the radio segment was $22,300,000 for the three months ended September 30, 2006, compared with $22,728,000 for the three months ended September 30, 2005, a decrease of approximately $428,000. The decrease in station operating expense for the radio segment represents primarily a decrease of approximately $530,000 in same station operating expense offset by an increase of $102,000 from the impact of the operation of radio stations that we did not own or operate for the comparable period in 2005. The decrease in radio same station operating expense was due to cost cutting efforts implemented Company wide in the first quarter of 2006, primarily in advertising and promotions expense and to a decrease in amortization expense of 88% attributable to fully amortized intangible assets.

Operating income in the radio segment for the three months ended September 30, 2006 was $9,102,000 compared to $9,535,000 for the three months ended September 30, 2005, a decrease of approximately $433,000 or 5%. The decrease was the result of the $861,000 decrease in net operating revenue offset by the smaller decrease of $428,000 in station operating expense discussed above.

26

Table of Contents

***Television Segment***

For the three months ended September 30, 2006, net operating revenue of our television segment was $4,389,000 compared with $3,698,000 for the three months ended September 30, 2005, an increase of $691,000 or 19%. The majority of the improvement in net operating revenue was attributable to an increase in local revenue (excluding political) of approximately 17% and gross political revenue of approximately $291,000, an increase of $286,000.

Station operating expense in the television segment for the three months ended September 30, 2006 was $3,461,000, compared with $3,382,000 for the three months ended September 30, 2005, an increase of approximately $79,000, attributable to the increase in selling and commission expenses directly related to the increase in net revenue.

Operating income in the television segment for the three months ended September 30, 2006 was $928,000 compared to $316,000 for the three months ended September 30, 2005, an increase of approximately $612,000. The increase was the direct result of the increase in net operating revenue and the small increase in station operating expense.

***Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005***

The following tables summarize our results of operations for the nine months ended September 30, 2006 and 2005.

**Consolidated Results of Operations**

| | **Nine Months Ended September 30,** | | | |
|---|---|---|---|---|
| | **2006** | **2005** | **$ Increase (Decrease)** | **% Increase (Decrease)** |
| | **(In thousands, except percentages and per share information)** | | | |
| Net operating revenue | $ 104,727 | $ 105,345 | $ (618) | (0.6)% |
| Station operating expense | 76,833 | 77,464 | (631) | (0.8)% |
| Corporate G&A | 6,705 | 6,060 | 645 | 10.6% |
| Operating income | 21,189 | 21,821 | (632) | (2.9)% |
| Interest expense | 7,007 | 5,511 | 1,496 | 27.2% |
| Other (income) expense, net | (645) | 1,503 | (2,148) | N/M |
| Income taxes | 6,050 | 6,130 | (80) | (1.3)% |
| Net income | $ 8,777 | $ 8,677 | $ 100 | 1.2% |
| Earnings per share: | | | | |
| Basic | $ .43 | $ .42 | $ .01 | 2.4% |
| Diluted | $ .43 | $ .42 | $ .01 | 2.4% |

**Radio Broadcasting Segment**

| | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (In thousands, except percentages) | | | |
| Net operating revenue | $ 92,100 | $ 94,240 | $ (2,140) | (2.3)% |
| Station operating expense | 66,675 | 67,453 | (778) | (1.2)% |
| Operating income | $ 25,425 | $ 26,787 | $ (1,362) | (5.1)% |

**Table of Contents**

**Television Broadcasting Segment**

| | Nine Months Ended September 30, 2006 | 2005 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (In thousands, except percentages) | | | |
| Net operating revenue | $ 12,627 | $ 11,105 | $ 1,522 | 13.7% |
| Station operating expense | 10,158 | 10,011 | 147 | 1.5% |
| Operating income | $ 2,469 | $ 1,094 | $ 1,375 | 125.7% |

N/M = Not meaningful

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

| | Radio | Television | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Nine Months Ended September 30, 2006:** | | | | |
| Net operating revenue | $ 92,100 | $ 12,627 | | $ 104,727 |
| Station operating expense | 66,675 | 10,158 | | 76,833 |
| Corporate general and administrative | | | $ 6,705 | 6,705 |
| Operating income (loss) | $ 25,425 | $ 2,469 | $ (6,705) | $ 21,189 |

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

***Consolidated***

For the nine months ended September 30, 2006, consolidated net operating revenue was 104,727,000 compared with $105,345,000 for the nine months ended September 30, 2005, a decrease of $618,000 or 1%. Net operating revenue generated by stations that we owned and operated for the entire comparable period decreased by 2% or approximately $1,610,000. The majority of the decline in same station revenue was attributable to same station local revenue (excluding political) decreases of approximately 2% and same station national revenue (excluding political) decrease of approximately 5%, offset by gross political revenue of approximately $1,206,000, an increase of $973,000. The decrease in same station net operating revenue was offset by an increase of $992,000 generated by stations that we did not own or operate for the comparable period in 2005.

Station operating expense decreased by $631,000 or 1% to $76,833,000 for the nine months ended September 30, 2006, compared with $77,464,000 for the nine months ended September 30, 2005. Same station operating expense decreased approximately $1,591,000 offset by an increase of $960,000 from the impact of the operation of radio stations that we did not own or operate for the comparable period in 2005. The decrease in same station operating expense is primarily related to the overall cost containment efforts implemented in the first quarter of 2006 with the primary cost reductions in advertising and promotions expense, and an 84% decrease in amortization expense primarily attributable to fully amortized intangible assets.

Operating income for the nine months ended September 30, 2006 was $21,189,000 compared to $21,821,000 for the nine months ended September 30, 2005, a decrease of approximately $632,000 or 3%.

Table of Contents

The decrease was primarily the result of the decrease in net operating revenue, and a $645,000 or 11% increase in corporate general and administrative charges. The increase in corporate general and administrative charges results primarily from an increase in stock based compensation expense.

We generated net income of approximately $8,777,000 ($.43 per share on a fully diluted basis) during the nine months ended September 30, 2006, compared with $8,677,000 ($.42 per share on a fully diluted basis) for the nine months ended September 30, 2005, an increase of approximately $100,000 or 1%. The increase was the result of a $2,148,000 increase in other (income) expense offset by the decrease in operating income discussed above and an increase in interest expense of approximately $1,496,000. The increase in other (income) expense was principally the result of a $500,000 gain recognized for a slight alteration to one of our Keene, New Hampshire FM s signal patterns and a $315,000 gain on insurance proceeds related to a Springfield, Illinois tower destroyed by a tornado for the nine months ended September 30, 2006. Other expense for the nine months ended September 30, 2005 consists primarily of a $1,300,000 loss recognized on the disposition of a tower made obsolete by our DTV conversion in our Victoria, Texas market. The increase in interest expense of approximately $1,496,000 was the direct result of higher interest rates over the prior year.

***Radio Segment***

For the nine months ended September 30, 2006, net operating revenue in the radio segment was $92,100,000 compared with $94,240,000 for the nine months ended September 30, 2005, a decrease of $2,140,000 or 2%. Net operating revenue generated by radio stations that we owned and operated for the entire comparable period decreased by approximately $3,132,000 or 3%, offset by a $992,000 increase in revenue generated by radio stations and radio networks that we did not own or operate for the comparable period in 2005. The majority of the decline in same station revenue was attributable to same station national revenue (excluding political) decrease of approximately 7% and a decrease in same station local revenue (excluding political) of approximately 4%, offset by gross political revenue of approximately $667,000 or an increase of $455,000. We had declines in net operating revenue of approximately 11%, 8% and 9%, respectively in our Columbus, Ohio, Des Moines, Iowa and Norfolk, Virginia markets, where we are experiencing ratings softness with one of our stations in each of these markets.

Station operating expense in our radio segment decreased by $778,000 or 1% to $66,675,000 for the nine months ended September 30, 2006, compared with $67,453,000 for the nine months ended September 30, 2005. On a same station basis, station operating expense decreased by approximately $1,738,000 or 3%, which is primarily the result of a decrease in selling and commission expenses directly attributed to the decrease in revenue, an overall decrease in expenses related to cost cutting efforts implemented Company wide in first quarter 2006 and an 85% decrease in amortization expense as discussed above. The same station decrease is offset by an increase of approximately $960,000 resulting from the impact of the operation of stations that we did not own or operate for the comparable period in 2005.

Operating income in the radio segment for the nine months ended September 30, 2006 was $25,425,000 compared to $26,787,000 for the nine months ended September 30, 2005, a decrease of approximately $1,362,000 or 5%. The decrease was the result of the decrease in net operating revenue and the decrease in station operating expense.

***Television Segment***

For the nine months ended September 30, 2006, net operating revenue in the television segment was $12,627,000 compared with $11,105,000 for the nine months ended September 30, 2005, an increase of $1,522,000 or 14%. The increase in revenue was primarily attributable to a 12% increase in local revenue and $539,000 in gross political revenue (an increase of $518,000) for the nine months ended September 30, 2006.

Station operating expense in our television segment increased by $147,000 or 1% to $10,158,000 for the nine months ended September 30, 2006, compared with $10,011,000 for the nine months ended September 30, 2005. The increase in station operating expense was primarily attributable to increases in selling and commission expenses as a result of the increase in revenue.

Table of Contents

Operating income in the television segment for the nine months ended September 30, 2006 was $2,469,000 compared to $1,094,000 for the nine months ended September 30, 2005, an increase of approximately $1,375,000 or 126%. The increase was the result of the increase in net operating revenue, offset by the small increase in station operating expense.

**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 2006 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 Part 1, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2005.

**Liquidity and Capital Resources**

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

In May 2006, we amended our current credit agreement (the Credit Agreement ) to reduce the interest rate margin for LIBOR and the Agent bank s base rate; to reduce the bank s commitment fee percentage; to increase the total Revolving Commitments to $200,000,000; and to extend the maturity date of the Revolving Commitments to July 29, 2012. Interest rates under the Credit Agreement are payable, at our option, at alternatives equal to LIBOR at the reset date (5.375% to 5.50% at September 30, 2006) plus 0.75% to 1.25% (4.563% at December 31, 2005, plus 0.75% to 1.625%) or the Agent bank s base rate plus 0% (0% to 0.375% at December 31, 2005). 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 0.375% per annum (0.375% to 0.625% per annum at December 31, 2005) on the unused portion of the Credit Agreement.

As of September 30, 2006, we had $136,911,000 of long-term debt outstanding and approximately $64,150,000 of unused borrowing capacity under our Credit Agreement.

The Credit Agreement is a $200,000,000 reducing revolving line of credit maturing on July 29, 2012. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries stock and by a guarantee of our subsidiaries.

The Credit Agreement may be used for general corporate purposes, including working capital, capital expenditures, permitted acquisition and related transaction expenses and permitted stock buybacks. On March 31, 2008, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2008. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2012. In addition, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios.

**Table of Contents**

***Sources and Uses of Cash***

During the nine months ended September 30, 2006 and 2005, we had net cash flows from operating activities of $19,600,000 and $19,012,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest under the Credit Agreement. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

The following transactions were either pending at September 30, 2006 or were entered into subsequent to that date, which we expect to finance through funds generated from operations and additional borrowings under our Credit Agreement:

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

On August 7, 2006, we acquired one FM radio station (WCTU-FM) serving the Tazwell, Tennessee market for approximately $779,000. This station has filed for FCC approval to relocate its tower to Weaverville, North Carolina (serving the Asheville, North Carolina market). When this relocation occurs, we will owe an additional $3,350,000.

On August 28, 2006, we entered into an agreement to acquire an FM radio station (WCNR-FM) serving the Charlottesville, Virginia market for $3,250,000, and an LMA. On September 1, 2006 we began providing programming under the LMA to WCNR-FM. The transaction is subject to FCC approval and we expect to close on the acquisition in the first quarter of 2007.

On October 5, 2006 we entered into an agreement to acquire one AM and one FM (WKRT-AM and WIII-FM) radio stations licensed to Cortland, New York and serving the Ithaca, New York market for approximately $4,000,000. The transaction is subject to FCC approval and we expect to close on this acquisition in the first quarter 2007.

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

In May 2005, our board of directors authorized an increase to our Stock Buy-Back Program so that we may purchase a total of $30,000,000 of our Class A Common Stock. From the inception of the Stock Buy-Back program in 1998 through September 30, 2006, we have repurchased 1,727,089 shares of our Class A Common Stock for approximately $24,769,000. Approximately 253,400 shares were repurchased during the nine months ended September 30, 2006 for $2,131,000. On September 13, 2006 we entered into an agreement with a third party broker to repurchase Class A Common Stock under our Stock Buy-Back Program in compliance with the guidelines and limitations of Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934.

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

Our capital expenditures, exclusive of acquisitions, for the nine months ended September 30, 2006 were approximately $6,836,000 ($9,054,000 in corresponding period of 2005). We anticipate capital expenditures exclusive of acquisitions in 2006 to be approximately $9,500,000, which we expect to finance through funds generated from operations or additional borrowings under the Credit Agreement.

Table of Contents

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

We have future cash obligations under various types of contracts under the terms of our Credit Agreement, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see Item 7.  Management s Discussion and Analysis of Financial Condition and Results of Operations-Summary Disclosures About Contractual Obligations  in our annual report on Form 10-K for the year ended December 31, 2005.

There have been no material changes to such contracts/commitments during the nine months ended September 30, 2006 other than those discussed above. We anticipate that the above contractual cash obligations will be financed through funds generated from operations or additional borrowings under the Credit Agreement, or a combination thereof.

***Critical Accounting Policies and Estimates***

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There have been no significant changes to our critical accounting policies that are described in Item 7.  Managements Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates  in our annual report on Form 10-K for the year ended December 31, 2005.

**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 7. Management s Discussion and Analysis of Financial Condition and Results of Operations-Market Risk and Risk Management Policies  and  Item 7A. Quantitative and Qualitative Disclosures about Market Risk  in our annual report on Form 10-K for the year ended December 31, 2005 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2005 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 September 30, 2006, that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

## PART II OTHER INFORMATION

**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 September 30, 2006. All shares repurchased during the quarter were repurchased in open market transactions on the New York Stock Exchange.

| Period | Total Number of Shares Purchased | | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program(a) |
|---|---|---|---|---|---|---|
| July 1 July 31, 2006 | | $ | | | $ | 6,508,230 |
| August 1 August 31, 2006 | 38,500 | $ | 7.403 | 38,500 | $ | 6,223,220 |
| September 1 September 30, 2006 | 125,700 | $ | 7.896 | 125,700 | $ | 5,230,679 |
| Total | 164,200 | $ | 7.780 | | | |

(a) On August 7, 1998 our Board of Directors approved a Stock Buy-Back Program of up to $2,000,000 of our Class A Common Stock. Since August 1998, the Board of Directors has authorized several increases to the Stock Buy-Back Program, the most recent occurring on May 4, 2005, which increased the total amount authorized for repurchase of our Class A Common Stock to $30,000,000.

(b) On September 13, 2006 we entered into an agreement with a third party broker to repurchase Class A Common Stock under our Buy-Back Program in compliance with the guidelines and limitations of Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The agreement ended November 8, 2006.

**Item 6.** ***Exhibits***

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

**Table of Contents**

## SIGNATURES

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

| | |
|---|---|
| | SAGA COMMUNICATIONS, INC. |
| Date: November 9, 2006 | /s/ Samuel D. Bush |
| | Samuel D. Bush<br>*Senior Vice President,*<br>*Chief Financial Officer, and Treasurer*<br>*(Principal Financial Officer)* |
| Date: November 9, 2006 | /s/ Catherine Bobinski |
| | Catherine Bobinski<br>*Vice President, Corporate Controller and*<br>*Chief Accounting Officer*<br>*(Principal Accounting Officer)* |

**Table of Contents**

## INDEX TO EXHIBITS

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