SAGA COMMUNICATIONS INC
Form 10-Q
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period ended June 30, 2013

or

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

For the transition period from __________ to

Commission file number 1-11588

Saga Communications, Inc.

(Exact name of registrant as specified in its charter)

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

(313) 886-7070

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant's Class A Common Stock, $.01 par value, and Class B Common Stock, $.01 par value, outstanding as of August 2, 2013 was 4,887,843 and 796,309, respectively.

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PART I — FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$19,303	$ 15,915
Accounts receivable, net	19,772	19,692
Prepaid expenses and other current assets	2,777	2,482
Barter transactions	1,682	1,347
Deferred income taxes	861	892
Current assets of station held for sale	—	106
Total current assets	44,395	40,434
Property and equipment	157,656	155,779
Less accumulated depreciation	100,000	97,317
Net property and equipment	57,656	58,462
Other assets:		
Broadcast licenses, net	90,373	90,361
Other intangibles, deferred costs and investments, net	5,559	5,286
Assets of station held for sale	—	2,787
	$197,983	$ 197,330
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$1,793	$ 2,218
Payroll and payroll taxes	5,849	6,364
Other accrued expenses	2,889	3,244
Barter transactions	1,801	1,417
Current portion of long-term debt	1,078	—
Current liabilities of station held for sale	—	125
Total current liabilities	13,410	13,368
Deferred income taxes	19,209	17,646

Long-term debt	50,000	58,828
Other liabilities	3,092	3,132
Liabilities of station held for sale	—	147
Total liabilities	85,711	93,121
Commitments and contingencies		
Stockholders’ equity:		
Common stock	72	72
Additional paid-in capital	51,222	51,061
Retained earnings	89,498	81,746
Treasury stock	(28,520)	(28,670)
Total stockholders’ equity	112,272	104,209
	$197,983	$ 197,330

Note: The balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In thousands, except per share data)			
Net operating revenue	$33,832	$32,986	$62,789	$62,309
Station operating expense	23,493	21,959	45,581	44,319
Corporate general and administrative	1,982	1,940	3,930	3,889
Operating income from continuing operations	8,357	9,087	13,278	14,101
Other expenses, net:				
Interest expense	357	458	715	986
Other expense (income), net	66	(8)	91	(10)
Income from continuing operations before tax	7,934	8,637	12,472	13,125
Income tax provision	3,130	3,438	4,942	5,223
Income from continuing operations, net of tax	4,804	5,199	7,530	7,902
Income (loss) from discontinued operations, net of tax	—	(67)	223	(65)
Net income	$4,804	$5,132	$7,753	$7,837
Basic earnings (loss) per share:				
From continuing operations	$.85	$.92	$1.33	$1.40
From discontinued operations	—	(.01)	.04	(.01)
Basic earnings per share	$.85	$.91	$1.37	$1.39
Weighted average common shares	5,683	5,661	5,677	5,658
Diluted earnings (loss) per share:				
From continuing operations	$.84	$.92	$1.31	$1.39
From discontinued operations	—	(.01)	.04	(.01)
Diluted earnings per share	$.84	$.91	$1.35	$1.38
Weighted average common and common equivalent shares	5,745	5,663	5,740	5,667

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2013	2012
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	$11,046	$14,756
Cash flows from investing activities:		
Proceeds from sale of television station	2,960	—
Acquisition of property and equipment	(2,465)	(2,502)
Other investing activities	(173)	(74)
Net cash provided by (used in) investing activities	322	(2,576)
Cash flows from financing activities:		
Payments on long-term debt	(7,750)	(10,250)
Payments for debt amendment fees	(289)	—
Other financing activities	59	(80)
Net cash used in financing activities	(7,980)	(10,330)
Net increase in cash and cash equivalents	3,388	1,850
Cash and cash equivalents, beginning of period	15,915	6,991
Cash and cash equivalents, end of period	$19,303	$8,841

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of June 30, 2013 and the results of operations for the three and six months ended June 30, 2013 and 2012. Results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

On January 16, 2013 the Company consummated a four-for-three stock split of its Class A and Class B Common Stock, to shareholders of record as of the close of business on December 28, 2012. The stock split increased the Company's issued and outstanding shares of common stock from 3,659,753 shares of Class A Common Stock and 597,504 shares of Class B Common Stock to 4,879,186 and 796,672 shares, respectively.

All share and per share information in the accompanying financial statements have been restated retroactively to reflect the stock split.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2012.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2013, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

Earnings Per Share Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Numerator:				
Net income available to common stockholders	$4,804	$5,132	$ 7,753	$ 7,837
Denominator:				
Denominator for basic earnings per share — weighted average shares	5,683	5,661	5,677	5,658
Effect of dilutive securities:				
Common stock equivalents	62	2	63	9
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	5,745	5,663	5,740	5,667
Basic earnings per share:	$.85	$.91	$ 1.37	$ 1.39
Diluted earnings per share:	$.84	$.91	$ 1.35	$ 1.38

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 14,000 for the three and six months ended June 30, 2013 and 140,000 for the three and six months ended June 30, 2012. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

Financial Instruments

Our financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short maturities. The carrying value of long-term debt approximates fair value as it carries interest rates that either fluctuate with the euro-dollar rate, prime rate or have been reset at the prevailing market rate at June 30, 2013.

Income Taxes

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

Time Brokerage Agreements/Local Marketing Agreements

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

2. Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. The guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely that not that an indefinite-lived intangible asset is impaired. If the qualitative assessment supports that it is more likely than not the fair value of the asset exceeds its carrying amount, the company would not be required to perform a quantitative impairment test. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. This update was adopted on January 1, 2013 and did not have any material effect on our consolidated financial statements.

3. Intangible Assets

We evaluate our FCC licenses for impairment annually as of October 1^{st} or more frequently if events or circumstances indicate that the asset might be impaired. FCC licenses are evaluated for impairment at the market level using a direct method. If the carrying amount of FCC licenses is greater than their estimated fair value in a given market, the carrying amount of FCC licenses in that market is reduced to its estimated fair value.

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

4. Common Stock and Treasury Stock

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through June 30, 2013:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2012	6,360	797
Exercised options	10	—
Balance, December 31, 2012	6,370	797
Exercised options	5	—
Conversion of shares	1	(1)
Balance, June 30, 2013	6,376	796

We have a Stock Buy-Back Program to allow us to purchase up to $75.8 million of our Class A Common Stock. As of June 30, 2013 we have remaining authorization of $29.9 million for future repurchases of our Class A Common Stock.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

5. Discontinued Operations

On April 3, 2012 we entered into a definitive agreement to sell our Greenville, Mississippi TV station (“WXVT”) for $3 million, subject to certain adjustments, to H3 Communications, LLC (“H3”). This transaction was completed on January 31, 2013 and we recognized a gain of approximately $223,000, net of tax, on the sale of WXVT during the first quarter of 2013.

In accordance with authoritative guidance we have reported the results of operations of WXVT as discontinued operations in the accompanying consolidated financial statements. For all previously reported periods, certain amounts in the consolidated financial statement have been reclassified. The assets and liabilities of WXVT have been classified as held for sale and the net results of operations have been reclassified from continuing operations to discontinued operations. WXVT was previously included in the Company’s television segment.

6. Stock-Based Compensation

2005 Incentive Compensation Plan

On May 10, 2010, our stockholders approved the Amended and Restated 2005 Incentive Compensation Plan (the “2005 Plan”) which replaced 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.

Stock-Based Compensation

For the six months ended June 30, 2012, we had $22,000 of total compensation expense related to stock options. This expense is included in corporate general and administrative expenses in our results of operations. The associated future income tax benefit recognized for the six months ended June 30, 2012 was $9,000. The stock options were fully expensed at March 31, 2012, therefore there was no compensation expense related to stock options for the three months ended June 30, 2012 or the three and six months ended June 30, 2013.

The following summarizes the stock option transactions for the 2005 and 2003 Plans for the six months ended June 30, 2013:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	260,660	$ 34.69	3.0	$1,253,039
Exercised	(5,403)	28.22		
Expired	(15,299)	57.66		
Outstanding at June 30, 2013	239,958	$ 33.67	2.6	$3,173,242
Exercisable at June 30, 2013	239,958	$ 33.67	2.6	$3,173,242

All stock options were fully vested at December 31, 2012.

The following summarizes the restricted stock transactions for the six months ended June 30, 2013:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2013	5,531	$ 17.97
Vested	(5,531)	17.97
Non-vested and outstanding at June 30, 2013	—	$ —

For the six months ended June 30, 2013 and the three and six months ended June 30, 2012, we had $16,000, $25,000 and $60,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. This expense is included in corporate general and administrative expenses in our results of operations. The associated tax benefit recognized for the six months ended June 30, 2013 and the three and six months ended June 30, 2012, was $7,000, $10,000 and $24,000, respectively. The restricted stock was fully expensed at March 31, 2013, therefore there was no compensation expense related to restricted stock for the three months ended June 30, 2013.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

7. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
Credit Agreement:		
Term loan	$30,000	$ 57,750
Revolving credit facility	20,000	—
Secured debt of affiliate	1,078	1,078
	51,078	58,828
Amounts payable within one year	1,078	—
	$50,000	$ 58,828

On May 31, 2013, we amended our $120 million credit facility (the “Credit Facility”) to (i) extend the maturity date to May 31, 2018; (ii) change the allocation between the term loan (the “Term Loan”) and the revolving loan (the “Revolving Credit Facility”) to $30 million and $90 million, respectively; (iii) modify the Consolidated Fixed Charge Coverage ratio to exclude distributions made when the Consolidated Leverage Ratio is less than 2.50 to 1.00 from the fixed charge component of such ratio; (iv) revise the interest rates and commitment fees, as set forth below; (v) remove the cap on additional business acquisitions if the Consolidated Leverage Ratio is less than 2.50 to 1.00, and if equal to or greater than such amount, cap such acquisitions at $35 million subject to certain conditions; and (vi) remove the cap on the annual aggregate of dividends, distributions, and stock redemptions if the Consolidated Leverage Ratio is less than 2.50 to 1.00, and if equal to or greater than such amount, such annual aggregate amount becomes subject to a pro forma covenant compliance.

We had $70 million of unused borrowing capacity under the Revolving Credit Facility at June 30, 2013. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses. As of June 30, 2013, we have no required amortization payment.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (0.19535% at June 28, 2013) plus 1.25% to 2.25% (0.2117% at December 31, 2012, plus 1.50% to 2.75%) or the base rate plus 0.25% to 1.25% (0.50% to 1.75% at December 31, 2012). The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment fees of 0.25% to 0.35% per annum (0.25% to 0.375% per annum at December 31, 2012) on the unused portion of the Revolving Credit Facility.

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

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at June 30, 2013) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

8. Segment Information

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

The Radio segment includes twenty-three markets, which includes all ninety-one of our radio stations and five radio information networks. The Television segment includes two markets and consists of four 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.

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended June 30, 2013:				
Net operating revenue	$28,674	$5,158	$ —	$ 33,832
Station operating expense	20,215	3,278	—	23,493
Corporate general and administrative	—	—	1,982	1,982
Operating income (loss) from continuing operations	$8,459	$1,880	$ (1,982)	$ 8,357
Depreciation and amortization	$1,249	$350	$ 56	$ 1,655

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended June 30, 2012:				
Net operating revenue	$28,482	$4,504	$ —	$ 32,986
Station operating expense	18,921	3,038	—	21,959
Corporate general and administrative	—	—	1,940	1,940
Operating income (loss) from continuing operations	$9,561	$1,466	$ (1,940)	$ 9,087
Depreciation and amortization	$1,274	$346	$ 56	$ 1,676

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Six Months Ended June 30, 2013:				
Net operating revenue	$53,136	$9,653	$ —	$ 62,789
Station operating expense	39,222	6,359	—	45,581
Corporate general and administrative	—	—	3,930	3,930
Operating income (loss) from continuing operations	$13,914	$3,294	$ (3,930)	$ 13,278
Depreciation and amortization	$2,491	$692	$ 113	$ 3,296
Total assets	$147,741	$23,068	$ 27,174	$ 197,983

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Radio	Television	Corporate and Other		Consolidated
		(In thousands)			
Six Months Ended June 30, 2012:					
Net operating revenue	$53,682	$8,627	$ —		$ 62,309
Station operating expense	38,276	6,043	—		44,319
Corporate general and administrative	—	—	3,889		3,889
Operating income (loss) from continuing operations	$15,406	$2,584	$ (3,889	)	$ 14,101
Depreciation and amortization	$2,571	$685	$ 113		$ 3,369
Total assets	$149,508	$23,657	$ 18,679	*	$ 191,844

*Includes $2,960 of Assets held for sale.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2012. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are reflected only in our discussion of consolidated results.

For purposes of business segment reporting, we have aligned operations with similar characteristics into two business segments: Radio and Television. The Radio segment includes twenty-three markets, which includes all ninety-one of our radio stations and five radio information networks ("Networks"). The Television segment includes two markets and consists of four television stations and four LPTV stations. The discussion of our operating performance focuses on segment operating income because we manage our segments primarily on operating income. Operating performance is evaluated for each individual market.

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

General

We are a broadcast company primarily engaged in acquiring, developing and operating broadcast properties.

Radio Segment

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

Most advertising contracts are short-term and generally run for a few weeks only. The majority of our revenue is generated from local advertising, which is sold primarily by each radio markets' sales staff. For the six months ended June 30, 2013 and 2012, approximately 88% of our radio segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representative firms that specialize in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. In 2012 we had a considerable increase in revenue due to political advertising. Because 2013 is a non-election year, we expect political revenue to significantly decrease in 2013.

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

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

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

The number of advertisements that can be broadcast without jeopardizing listening levels 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, station popularity and format. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year. Any change in our revenue, with the exception of those instances where stations are acquired or sold, is generally the result of inventory sell out ratios and pricing adjustments, which are made to ensure that the station efficiently utilizes available inventory.

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

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

During the six months ended June 30, 2013 and 2012 and the years ended December 31, 2012 and 2011, our Columbus, Ohio; Des Moines, Iowa; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 34%, 34%, 35% and 34%, respectively, of our consolidated net operating revenue. An adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole.

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

	Percentage of Consolidated Net Operating Revenue for the Six Months Ended June 30,		Percentage of Consolidated Net Operating Revenue for the Years Ended December 31,	
	2013	2012	2012	2011

Market:				
Columbus, Ohio	7%	6%	7%	6%
Des Moines, Iowa	7%	7%	6%	7%
Manchester, New Hampshire	5%	5%	6%	5%
Milwaukee, Wisconsin	10%	12%	11%	12%
Norfolk, Virginia	5%	4%	5%	4%

We have experienced a significant decline in our net operating revenue for the six months ended June 30, 2013 and year ended December 31, 2012, as compared to the corresponding periods of 2012 and 2011, respectively, in our Milwaukee, Wisconsin market. This decline in net operating revenue has directly affected the operating income of our radio stations in this market. These reductions are attributable to a combination of aggressive competitive pricing due to a soft economy and new rating methodology that has changed the competitive pricing landscape in the market; an increase in the demand for 30 second spots which has caused a reduction in both our rates and inventory available as we control the number of units per hour to provide more entertainment for our listeners; and a decline in certain key category spending in the market.

During the six months ended June 30, 2013 and 2012 and the years ended December 31, 2012 and 2011, the radio stations in our five largest markets when combined, represented approximately 38%, 40%, 40% and 36%, 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 Six Months Ended June 30,		Percentage of Consolidated Station Operating Income (*) for the Years Ended December 31,	
	2013	2012	2012	2011
Market:				
Columbus, Ohio	8%	7%	8%	6%
Des Moines, Iowa	5%	5%	5%	5%
Manchester, New Hampshire	7%	8%	8%	7%
Milwaukee, Wisconsin	12%	15%	13%	15%
Norfolk, Virginia	6%	5%	6%	3%

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

Television Segment

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

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

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

Our stations strive to maximize revenue by constantly adjusting prices for our commercial spots based upon local market conditions, advertising demands and ratings. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year. Any change in our revenue, with the exception of those instances where stations are acquired or sold, is generally the result of pricing adjustments, which are made to ensure that the station efficiently utilizes available inventory.

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

Most of our revenue is generated from local advertising, which is sold primarily by each television markets' sales staff. For the six months ended June 30, 2013 and 2012, approximately 83% and 84%, respectively, of our television segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. In 2012 we had a considerable increase in revenue due to political advertising. Because 2013 is a non-election year, we expect political revenue to significantly decrease in 2013.

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

Our television market in Joplin, Missouri represented approximately 10%, 9%, 9% and 9%, respectively, of our net operating revenues, and approximately 13%, 11%, 11% and 10%, respectively, of our consolidated station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization) for the six months ended June 30, 2013 and 2012 and the years ended December 31, 2012 and 2011.

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Results of Operations

The following tables summarize our results of operations for the three months ended June 30, 2013 and 2012.

Consolidated Results of Operations

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 33,832	$ 32,986	$ 846	2.6 %
Station operating expense	23,493	21,959	1,534	7.0 %
Corporate general and administrative	1,982	1,940	42	2.2 %
Operating income from continuing operations	8,357	9,087	(730)	(8.0)%
Interest expense	357	458	(101)	(22.1)%
Other expense (income), net	66	(8)	74	N/M
Income from continuing operations before income tax	7,934	8,637	(703)	(8.1)%
Income tax provision	3,130	3,438	(308)	(9.0)%
Income from continuing operations, net of income taxes	4,804	5,199	(395)	(7.6)%
Loss from discontinued operations, net of income taxes	—	(67)	67	N/M
Net income	$ 4,804	$ 5,132	$ (328)	(6.4)%
Earnings (loss) per share:				
From continuing operations	$ .84	$ .92	$ (.08)	(8.7)%
From discontinued operations	—	(.01)	.01	N/M
Earnings per share (diluted)	$ .84	$ .91	$ (.07)	(7.7)%

Radio Broadcasting Segment

Three Months Ended

	June 30,		$ Increase	% Increase
	2013	2012	(Decrease)	(Decrease)
	(In thousands, except percentages)			
Net operating revenue	$28,674	$28,482	$ 192	0.7 %
Station operating expense	20,215	18,921	1,294	6.8 %
Operating income	$8,459	$9,561	$ (1,102)	(11.5)%

Television Broadcasting Segment

	Three Months Ended			
	June 30,		$ Increase	% Increase
	2013	2012	(Decrease)	(Decrease)
	(In thousands, except percentages)			
Net operating revenue	$5,158	$4,504	$ 654	14.5 %
Station operating expense	3,278	3,038	240	7.9 %
Operating income	$1,880	$1,466	$ 414	28.2 %

N/M = Not Meaningful

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Reconciliation of segment operating income to consolidated operating income from continuing operations:

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended June 30, 2013:				
Net operating revenue	$28,674	$ 5,158	$ —	$ 33,832
Station operating expense	20,215	3,278	—	23,493
Corporate general and administrative	—	—	1,982	1,982
Operating income (loss) from continuing operations	$8,459	$ 1,880	$ (1,982)	$ 8,357

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended June 30, 2012:				
Net operating revenue	$28,482	$ 4,504	$ —	$ 32,986
Station operating expense	18,921	3,038	—	21,959
Corporate general and administrative	—	—	1,940	1,940
Operating income (loss) from continuing operations	$9,561	$ 1,466	$ (1,940)	$ 9,087

Consolidated

For the three months ended June 30, 2013, consolidated net operating revenue was $33,832,000 compared with $32,986,000 for the three months ended June 30, 2012, an increase of $846,000 or 3%. Gross local revenue and gross retransmission consent revenue increased $987,000 and $122,000, respectively, from the second quarter of 2012. Gross national revenue increased $342,000 and gross political revenue decreased $545,000. The increase in gross local revenue was attributable to improvements in our Columbus, OH and Victoria, TX markets, partially offset by a decline in gross local revenue in our Portland, ME and Milwaukee, WI markets. The increase in gross national revenue is due to an increase in national advertising on our Networks and in our television markets. The decrease in gross political revenue was expected since 2013 is not an election year and 2012 was an election year.

Station operating expense was $23,493,000 for the three months ended June 30, 2013, compared with $21,959,000 for the three months ended June 30, 2012, an increase of $1,534,000 or 7%. The increase is primarily a result of $851,000 in non-recurring credits received in the prior year quarter from two of our performance rights organizations for fees previously paid. Sales commissions and selling expenses increased $226,000 in the current quarter as a result of increased revenue. Salaries increased $150,000 as a result of programming contractual agreements and health care costs increased $90,000.

Operating income from continuing operations for the three months ended June 30, 2013 was $8,357,000 compared to $9,087,000 for the three months ended June 30, 2012, a decrease of $730,000 or 8%. The decrease was a result of the increase in net operating revenue offset by an increase in station operating expense, described above.

We generated net income of $4,804,000 ($.84 per share on a fully diluted basis) during the three months ended June 30, 2013, compared to $5,132,000 ($.91 per share on a fully diluted basis) for the three months ended June 30, 2012, a decrease of $328,000 or 6%. We had a decrease in operating income from continuing operations of $730,000, as described above, and a decrease in interest expense of $101,000. The decrease in interest expense was attributable to an average decrease in market interest rates and a decrease in average debt outstanding. Income tax expense decreased $308,000 in the current quarter, as a result of the decrease in operating income.

Radio Segment

For the three months ended June 30, 2013, net operating revenue of the radio segment was $28,674,000 compared with $28,482,000 for the three months ended June 30, 2012, which represents an increase of $192,000 or less than 1%. Gross national revenue and gross local revenue increased $139,000 and $454,000, respectively, from the second quarter of 2012. The increase in gross national revenue is attributable to an increase in national advertising on our Networks and the increase in gross local revenue is attributable to improvements in our Columbus, OH market, partially offset by a decline in gross local revenue in our Portland, ME and Milwaukee, WI markets. Gross political revenue decreased $404,000 in the current year quarter because 2013 is not an election year and 2012 was an election year.

Station operating expense for the radio segment was $20,215,000 for the three months ended June 30, 2013, compared with $18,921,000 for the three months ended June 30, 2012, an increase of $1,294,000 or 7%. The increase is primarily a result of $851,000 in non-recurring credits received in the prior year quarter from two of our performance rights organizations for fees previously paid. Sales commissions and selling expenses increased $157,000 in the current quarter. Salaries increased $105,000 as a result of programming contractual agreements and health care costs increased $73,000.

Operating income in the radio segment decreased $1,102,000 to $8,459,000 for the three months ended June 30, 2013, from $9,561,000 for the three months ended June 30, 2012. The decrease was a result of the increase in station operating expense as described above.

Television Segment

For the three months ended June 30, 2013, net operating revenue of our television segment was $5,158,000 compared with $4,504,000 for the three months ended June 30, 2012, an increase of $654,000 or 15%. Gross local revenue and gross retransmission consent revenue increased $533,000 and $122,000, respectively, from the second quarter of 2012. The increase in local revenue was attributable to increased spending by the automotive industry and local broadcast television affiliates. Gross national revenue increased $203,000 and gross political revenue decreased $141,000 as compared to the prior year quarter. Increased advertising spending by phone and cellular companies led to the increase in gross national revenue and the decrease in gross political revenue was expected since 2013 is not an election year and 2012 was an election year.

Station operating expense in the television segment for the three months ended June 30, 2013 was $3,278,000, compared with $3,038,000 for the three months ended June 30, 2012, an increase of $240,000 or 8%. Sales expense and retransmission fees increased $69,000 and $47,000, respectively, in the current year quarter as a result of the increase in revenue.

Operating income in the television segment for the three months ended June 30, 2013 was $1,880,000 compared with $1,466,000 for the three months ended June 30, 2012, an increase of $414,000 or 28%. The increase was a direct result of the improvement in net operating revenue partially offset by the increase in station operating expense, described above.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Results of Operations

The following tables summarize our results of operations for the six months ended June 30, 2013 and 2012.

Consolidated Results of Operations

	Six Months Ended June 30, 2013	2012	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 62,789	$ 62,309	$ 480	0.8 %
Station operating expense	45,581	44,319	1,262	2.8 %
Corporate general and administrative	3,930	3,889	41	1.1 %
Operating income from continuing operations	13,278	14,101	(823)	(5.8)%
Interest expense	715	986	(271)	(27.5)%
Other expense (income), net	91	(10)	101	N/M
Income from continuing operations before tax	12,472	13,125	(653)	(5.0)%
Income tax provision	4,942	5,223	(281)	(5.4)%
Income from continuing operations, net of tax	7,530	7,902	(372)	(4.7)%
Income (loss) from discontinued operations, net of tax	223	(65)	288	N/M
Net income	$ 7,753	$ 7,837	$ (84)	(1.1)%
Earnings (loss) per share:				
From continuing operations	$ 1.31	$ 1.39	$ (.08)	(5.8)%
From discontinued operations	.04	(.01)	.05	N/M
Earnings per share (diluted)	$ 1.35	$ 1.38	$ (.03)	(2.2)%

Radio Broadcasting Segment

	Six Months Ended June 30, 2013	2012	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages)			
Net operating revenue	$53,136	$53,682	$ (546)	(1.0)%
Station operating expense	39,222	38,276	946	2.5 %
Operating income	$13,914	$15,406	$ (1,492)	(9.7)%

Television Broadcasting Segment

	Six Months Ended June 30, 2013	2012	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages)			
Net operating revenue	$9,653	$8,627	$ 1,026	11.9 %
Station operating expense	6,359	6,043	316	5.2 %
Operating income	$3,294	$2,584	$ 710	27.5 %

N/M = Not Meaningful

Reconciliation of segment operating income to consolidated operating income from continuing operations:

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Six Months Ended June 30, 2013:				
Net operating revenue	$53,136	$ 9,653	$ —	$ 62,789
Station operating expense	39,222	6,359	—	45,581
Corporate general and administrative	—	—	3,930	3,930
Operating income (loss) from continuing operations	$13,914	$ 3,294	$ (3,930)	$ 13,278

	Radio	Television	Corporate and Other	Consolidated

	(In thousands)			
Six Months Ended June 30, 2012:				
Net operating revenue	$53,682	$ 8,627	$ —	$ 62,309
Station operating expense	38,276	6,043	—	44,319
Corporate general and administrative	—	—	3,889	3,889
Operating income (loss) from continuing operations	$15,406	$ 2,584	$ (3,889)	$ 14,101

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Consolidated

For the six months ended June 30, 2013, consolidated net operating revenue was $62,789,000 compared with $62,309,000 for the six months ended June 30, 2012, an increase of $480,000 or 1%. Gross local revenue and gross retransmission consent revenue increased $1,313,000 and $228,000, respectively, for the six months of 2013. The increase in gross local revenue was primarily attributable to improvements in our Columbus, OH, Norfolk, VA and Victoria, TX markets, partially offset by a decline in gross local revenue in our Portland, ME and Milwaukee, WI markets. Gross national revenue and gross political revenue decreased $163,000 and $983,000, respectively. The decrease in gross national revenue is due to an overall decline in national advertising in our radio segment and the decrease in gross political revenue was expected since 2013 is not an election year and 2012 was an election year.

Station operating expense was $45,581,000 for the six months ended June 30, 2013, compared with $44,319,000 for the six months ended June 30, 2012, an increase of $1,262,000 or 3%. The increase is primarily a result of $851,000 in non-recurring credits received in the prior year from two of our performance rights organizations for fees previously paid. Sales commissions and selling expenses increased $155,000 in the current year as a result of increased revenue. Advertising and promotions expense increased $105,000 in 2013 and was primarily attributable to increased billboard and TV advertising.

Operating income from continuing operations for the six months ended June 30, 2013 was $13,278,000 compared to $14,101,000 for the six months ended June 30, 2012, a decrease of $823,000 or 6%. The decrease was a result of the increase in net operating revenue offset by an increase in station operating expense, described above.

We generated net income of $7,753,000 ($1.35 per share on a fully diluted basis) during the six months ended June 30, 2013, compared to $7,837,000 ($1.38 per share on a fully diluted basis) for the six months ended June 30, 2012, a decrease of $84,000 or 1%. We had a decrease in operating income from continuing operations of $823,000, as described above, and a decrease in interest expense of $271,000. The decrease in interest expense was attributable to an average decrease in market interest rates of approximately 0.61% and a decrease in average debt outstanding. Income tax expense decreased $281,000 in the current year as a result of the decrease in operating income. In 2013 we recognized income from discontinued operations of $223,000 net of tax from the sale of our Greenville, Mississippi TV station. See Note 5 – Discontinued Operations, in the accompanying notes to the unaudited condensed consolidated financial statements for more on our discontinued operations.

Radio Segment

For the six months ended June 30, 2013, net operating revenue of the radio segment was $53,136,000 compared with $53,682,000 for the six months ended June 30, 2012, which represents a decrease of $546,000 or 1%. Gross national revenue and gross political revenue decreased $437,000 and $747,000, respectively, in 2013. The decrease in gross national revenue is due to an overall decline in national advertising and the decrease in gross political revenue was expected since 2013 is not an election year and 2012 was an election year. Gross local revenue increased $452,000 in 2013. The increase in gross local revenue was primarily attributable to improvements in our Columbus, OH and Norfolk, VA markets, partially offset by a decline in gross local revenue in our Portland, ME and Milwaukee, WI markets.

Station operating expense for the radio segment was $39,222,000 for the six months ended June 30, 2013, compared with $38,276,000 for the six months ended June 30, 2012, an increase of $946,000 or 2%. The increase is primarily a result of $851,000 in non-recurring credits received in the prior year from two of our performance rights organizations for fees previously paid. Advertising and promotions expense increased $138,000 in 2013 and was primarily attributable to increased billboard and TV advertising.

Operating income in the radio segment decreased $1,492,000 or 10% to $13,914,000 for the six months ended June 30, 2013, from $15,406,000 for the six months ended June 30, 2012. The decrease was a result of the decline in net operating revenue and increase in station operating expense, as described above.

Television Segment

For the six months ended June 30, 2013, net operating revenue of our television segment was $9,653,000 compared with $8,627,000 for the six months ended June 30, 2012, an increase of $1,026,000 or 12%. Gross local revenue and gross retransmission consent revenue increased $861,000 and $228,000, respectively, in 2013. The increase in local revenue was attributable to increased spending by the automotive industry and broadcast television affiliates. Gross national revenue increased $274,000 and gross political revenue decreased $236,000 as compared to the prior year. Increased advertising spending by phone and cellular companies led to the increase in gross national revenue and the decrease in gross political revenue was expected since 2013 is not an election year and 2012 was an election year.

Station operating expense in the television segment for the six months ended June 30, 2013 was $6,359,000, compared with $6,043,000 for the six months ended June 30, 2012, an increase of $316,000 or 5%. Sales expense and retransmission fees increased $146,000 and $71,000, respectively, in the current year as a result of the increase in revenue.

Operating income in the television segment for the six months ended June 30, 2013 was $3,294,000 compared with $2,584,000 for the six months ended June 30, 2012, an increase of $710,000 or 27%. The increase was a result of the improvement in net operating revenue partially offset by the increase in station operating expense, described above.

Forward-Looking Statements

Statements contained in this Form 10-Q that are not historical facts are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as “believes,” “anticipates,” “estimates,” “plans,” “expects,” and similar expressions are intended to identify forward-looking statements. These statements are made as of the date of this report or as otherwise indicated, based on current expectations. We undertake no obligation to update this information. A number of important factors could cause our actual results for 2013 and beyond to differ materially from those expressed in any forward-looking statements made by or on our behalf. Forward-looking statements are not guarantees of future performance as they involve a number of risks, uncertainties and assumptions that may prove to be incorrect and that may cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks, uncertainties and assumptions that may affect our performance include our financial leverage and debt service requirements, dependence on key personnel, dependence on key stations, U.S. and local economic conditions, our ability to successfully integrate acquired stations, regulatory requirements, new technologies, natural disasters and terrorist attacks. We cannot be sure that we will be able to anticipate or respond timely to changes in any of these factors, which could adversely affect the operating results in one or more fiscal quarters. Results of operations in any past period should not be considered, in and of itself, indicative of the results to be expected for future periods. Fluctuations in operating results may also result in fluctuations in the price of our stock.

For a more complete description of the prominent risks and uncertainties inherent in our business, see Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012.

Liquidity and Capital Resources

Debt Arrangements and Debt Service Requirements

On May 31, 2013, we amended our $120 million credit facility (the “Credit Facility”) to (i) extend the maturity date to May 31, 2018; (ii) change the allocation between the term loan (the “Term Loan”) and the revolving loan (the “Revolving Credit Facility”) to $30 million and $90 million, respectively; (iii) modify the Consolidated Fixed Charge Coverage ratio to exclude distributions made when the Consolidated Leverage Ratio is less than 2.50 to 1.00 from the fixed charge component of such ratio; (iv) revise the interest rates and commitment fees, as set forth below; (v) remove the cap on additional business acquisitions if the Consolidated Leverage Ratio is less than 2.50 to 1.00, and if equal to or greater than such amount, cap such acquisitions at $35 million subject to certain conditions; and (vi) remove the cap on the annual aggregate of dividends, distributions, and stock redemptions if the Consolidated Leverage Ratio is less than 2.50 to 1.00, and if equal to or greater than such amount, such annual aggregate amount becomes subject to a pro forma covenant compliance.

We had $70 million of unused borrowing capacity under the Revolving Credit Facility at June 30, 2013. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses. As of June 30, 2013, we have no required amortization payment.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (0.19535% at June 28, 2013) plus 1.25% to 2.25% (0.2117% at December 31, 2012, plus 1.50% to 2.75%) or the base rate plus 0.25% to 1.25% (0.50% to 1.75% at December 31, 2012). The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment fees of 0.25% to 0.35% per annum (0.25% to 0.375% per annum at December 31, 2012) on the unused portion of the Revolving Credit Facility.

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

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at June 30, 2013) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

Sources and Uses of Cash

During the six months ended June 30, 2013 and 2012, we had net cash flows from operating activities of $11,046,000 and $14,756,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest and payments of principal under our Credit Facility. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

Our capital expenditures, exclusive of acquisitions, for the six months ended June 30, 2013 were $2,465,000 ($2,502,000 in 2012). We anticipate capital expenditures in 2013 to be approximately $5.5 million, which we expect to finance through funds generated from operations.

Summary Disclosures About Contractual Obligations and Commercial Commitments

We have future cash obligations under various types of contracts, including the terms of our Credit Facility, operating leases, programming contracts, employment agreements, and other operating contracts. For additional information concerning our future cash obligations see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation — Summary Disclosures About Contractual Obligations and Commercial Commitments” in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. There have been no significant changes to our critical accounting policies that are described in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2012.

Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk and Risk Management Policies” in our Annual Report on Form 10-K for the year ended December 31, 2012 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2012 Annual Report on Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause the material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There were no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We currently and from time to time are involved in litigation incidental to the conduct of our business. We are not a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on our financial position, cash flows or results of operations.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

	SAGA COMMUNICATIONS, INC.
Date: August 9, 2013	/s/ SAMUEL D. BUSH Samuel D. Bush *Senior Vice President and Chief Financial Officer* *(Principal Financial Officer)*
Date: August 9, 2013	/s/ CATHERINE A. BOBINSKI Catherine A. Bobinski *Senior Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)*