SAGA COMMUNICATIONS INC
Form 10-Q
November 09, 2015

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 September 30, 2015

or

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

For the transition period from __________ to

Commission file number 1-11588

Saga Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**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 November 3, 2015 was 4,968,644 and 843,034, respectively.

INDEX

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements (Unaudited)	3
Condensed consolidated balance sheets — September 30, 2015 and December 31, 2014	3
Condensed consolidated statements of income — Three and nine months ended September 30, 2015 and 2014	4
Condensed consolidated statements of cash flows —Nine months ended September 30, 2015 and 2014	5
Notes to unaudited condensed consolidated financial statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures about Market Risk	30
Item 4. Controls and Procedures	31
PART II OTHER INFORMATION	31
Item 1. Legal Proceedings	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 6. Exhibits	32
Signatures	33
EX-31.1	
EX-31.2	
EX-32	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

PART I — FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$18,866	$ 17,907
Accounts receivable, net	20,384	20,661
Prepaid expenses and other current assets	5,458	2,957
Barter transactions	1,510	1,217
Deferred income taxes	167	845
Total current assets	46,385	43,587
Property and equipment	167,183	161,602
Less accumulated depreciation	108,186	106,415
Net property and equipment	58,997	55,187
Other assets:		
Broadcast licenses, net	88,901	86,762
Goodwill	2,854	326
Other intangibles, deferred costs and investments, net	7,025	6,182
	$204,162	$ 192,044
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,574	$ 2,133
Payroll and payroll taxes	8,533	6,788
Other accrued expenses	3,813	2,756
Barter transactions	1,555	1,356
Total current liabilities	16,475	13,033
Deferred income taxes	26,068	23,786
Long-term debt	36,365	36,078
Other liabilities	3,370	3,902

Total liabilities	82,278	76,799
Commitments and contingencies		
Stockholders' equity:		
Common stock	74	72
Additional paid-in capital	56,826	52,496
Retained earnings	97,410	91,178
Treasury stock	(32,426)	(28,501)
Total stockholders' equity	121,884	115,245
	$204,162	$ 192,044

Note: The balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Unaudited)			
	(In thousands, except per share data)			
Net operating revenue	$33,831	$34,373	$97,250	$97,627
Station operating expense	24,324	26,366	71,400	72,812
Corporate general and administrative	2,577	2,307	7,642	6,580
Other operating expense, net	433	—	447	—
Operating income	6,497	5,700	17,761	18,235
Interest expense	229	268	714	812
Write-off of debt issuance costs	557	—	557	—
Other (income) expense, net	—	7	(417)	(38)
Income tax provision	2,599	2,180	7,190	7,000
Net income	$3,112	$3,245	$9,717	$10,461
Earnings per share:				
Basic earnings per share	$.54	$.56	$1.68	$1.82
Diluted earnings per share	$.53	$.56	$1.67	$1.80
Weighted average common shares	5,724	5,699	5,708	5,696
Weighted average common and common equivalent shares	5,752	5,742	5,749	5,751
Dividends declared per share	$.20	$.20	$.60	$.40

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2015	2014
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	$19,348	$20,971
Cash flows from investing activities:		
Acquisition of property and equipment	(4,427)	(3,801)
Acquisition of broadcast properties	(11,632)	(884)
Proceeds from insurance claim	777	—
Other investing activities	—	32
Net cash (used in) provided by investing activities	(15,282)	(4,653)
Cash flows from financing activities:		
Cash dividends paid	(2,323)	(1,150)
Payments on long-term debt	(35,000)	(5,000)
Borrowings on long-term debt	35,287	—
Purchase of treasury shares	(909)	—
Other financing activities	(162)	244
Net cash (used in) provided by financing activities	(3,107)	(5,906)
Net increase in cash and cash equivalents	959	10,412
Cash and cash equivalents, beginning of period	17,907	17,628
Cash and cash equivalents, end of period	$18,866	$28,040

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

For further information, refer to the consolidated financial statements and footnotes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2014.

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

Earnings Per Share Information

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

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

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Numerator:				
Net income	$3,112	$3,245	$ 9,717	$ 10,461
Less: Net income allocated to unvested participating securities	46	28	144	91
Net income available to common stockholders	$3,066	$3,217	$ 9,573	$ 10,370
Denominator:				
Denominator for basic earnings per share — weighted average shares	5,724	5,699	5,708	5,696
Effect of dilutive securities:				
Common stock equivalents	28	43	41	55
Denominator for diluted earnings per share — adjusted weighted average shares and assumed conversions	5,752	5,742	5,749	5,751
Basic earnings per share:	$.54	$.56	$ 1.68	$ 1.82
Diluted earnings per share:	$.53	$.56	$ 1.67	$ 1.80

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 0 for the three and nine months ended September 30, 2015 and 59,000 and 45,000 for the three and nine months ended September 30, 2014, respectively. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

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 September 30, 2015.

Income Taxes

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

Time Brokerage Agreements/Local Marketing Agreements

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

Reclassifications

Certain reclassifications have been made in the presentation of investing activities and financing activities in our condensed consolidated statements of cash flows for the nine-months ended September 30, 2014 in order to conform to the presentation for the nine-months ended September 30, 2015. The reclassifications did not change our total net cash used in investing activities or the total net cash used in financing activities for the nine-months ended September 30, 2014.

2. Recent Accounting Pronouncements

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

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, "*Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*" ("ASU 2015-03"), and in August 2015 the FAS issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* These ASUs require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt consistent with debt discounts. The presentation and subsequent measurement of debt issuance costs associated with line of credit, may be presented as an asset and amortized ratably over the term of the line of credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. We currently present deferred financing costs related to our line of credit within Other assets. ASU 2015-03 and ASU 2015-15 are effective for fiscal years and interim periods beginning after December 15, 2015, with early adoption permitted and are not expected to have a material impact on the Company's consolidated financial statements.

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

7

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

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

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

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *"Revenue from Contracts with Customers"* ("ASU 2014-09"), which provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under GAAP. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016. In July 2015, the FASB made a decision to defer the effective date of ASU 2014-09 for one year and permit early adoption as of the original effective date. As a result, the standard is effective for us for fiscal and interim periods beginning January 1, 2018. The Company is currently evaluating the impact of the provisions of this standard on our consolidated financial statements.

3. Intangible Assets

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

Intangible assets that have finite lives are amortized over their useful lives using the straight-line method. Favorable lease agreements are amortized over the lives of the leases ranging from 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 September 30, 2015:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2014	6,409	816
Exercised options	7	—
Conversion of shares	3	(3)
Issuance of restricted stock	27	30
Balance, December 31, 2014	6,446	843
Exercised options	93	32
Conversion of shares	32	(32)
Forfeitures of restricted stock	(2)	—
Balance, September 30, 2015	6,569	843

8

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

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 September 30, 2015 we have remaining authorization of $25.4 million for future repurchases of our Class A Common Stock.

5. Acquisitions and Dispositions

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

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

Pending Acquisition

On November 2, 2015, we entered into an agreement to acquire an FM radio station (WLVQ) from Wilks Broadcast – Columbus, LLC, serving the Columbus, Ohio market for $13,000,000. This transaction is subject to FCC approval and we expect to close on this acquisition in the first quarter 2016. We plan to operate this station under a LMA on or before November 16, 2015.

2015 Acquisitions

On July 13, 2015 we acquired an FM translator serving the Manchester, New Hampshire market for approximately $45,000.

On August 1, 2015 we acquired two AM and three FM stations and one FM translator (WSVA-AM, WHBG-AM, WQPO-FM, WJDV-FM, WTGD-FM and W221CF-FX) from M. Belmont VerStandig, Inc., serving the Harrisonburg, Virginia market for approximately $10,131,000, which included $128,000 in transactional costs. Cash was utilized to fund the acquisition. Management attributes the goodwill recognized in the acquisition to the power of the existing brands in the Harrisonburg, Virginia market as well as the synergies and growth opportunities expected through the combination with the Company's existing stations.

On August 26, 2015 we acquired an FM translator serving the Asheville, North Carolina market for approximately $125,000.

On September 1, 2015 we acquired two FM stations (WSIG-FM and WBOP-FM) from Gamma Broadcasting, LLC, serving the Harrisonburg, Virginia market for approximately $1,558,000, which included $92,000 in transactional costs. Cash was utilized to fund the acquisition. FCC multiple ownership rules prohibit us from owning both of these stations. In order to satisfy the multiple ownership requirements and receive FCC approval for this acquisition, we simultaneously donated WBOP-FM to Liberty University, Inc, a charitable organization. In exchange for donating WBOP-FM, including the Station, the FCC License and the Assets, we received an FM Translator W267BA, the FM Translator Assets, and the FM Translator FCC license. We incurred a loss of $400,000 as a result of this donation. This loss is recorded in other operating (income), expense, net on the Company's Condensed Consolidated Statements of Income and reported in cash flows from operating activities on the Condensed Consolidated Statement of Cash Flows. Management attributes the goodwill recognized in the acquisition to the power of the existing brands in the Harrisonburg, Virginia market as well as the synergies and growth opportunities expected through the combination with the Company's existing stations.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2014 Acquisitions and Dispositions

On January 31, 2014 we acquired one FM station (WFIZ-FM) and three FM Translators serving the Ithaca, New York market for approximately $720,000.

On February 28, 2014 we acquired an FM translator serving the Jonesboro, Arkansas market for approximately $35,000.

On May 9, 2014 we acquired an FM translator serving the Clarksville, Tennessee market for approximately $30,000.

On May 14, 2014 we acquired an FM translator serving the Portland, Maine market for approximately $44,750.

On May 16, 2014 we acquired two FM translators serving the Asheville, North Carolina market for approximately $100,000.

On June 16, 2014 we acquired an FM translator serving the Des Moines, Iowa market for approximately $87,500.

On November 4, 2014 we acquired an LPTV servicing the Victoria, Texas market for approximately $18,500.

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

Condensed Consolidated Balance Sheet of 2015 and 2014 Acquisitions:

The following unaudited condensed balance sheets represent the estimated fair value assigned to the related assets and liabilities of the 2015 and 2014 acquisitions at their respective acquisition dates. The allocation of the purchase price for the 2015 acquisitions is preliminary at September 30, 2015.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

Saga Communications, Inc.

Condensed Consolidated Balance Sheet of 2015 and 2014 Acquisitions

	Acquisitions in	
	2015	2014
	(In thousands)	
Assets Acquired:		
Current assets	$976	$45
Property and equipment	4,600	425
Other assets:		
Broadcast licenses-Radio segment	2,098	219
Broadcast licenses-Television segment	—	19
Goodwill-Radio segment	2,528	325
Goodwill-Television segment	—	—
Other intangibles, deferred costs and investments	1,507	3
Total other assets	6,133	566
Total assets acquired	11,709	1,036
Liabilities Assumed:		
Current liabilities	70	—
Total liabilities assumed	70	—
Net assets acquired	$11,639	$1,036

Pro Forma Results of Operations for Acquisitions (Unaudited)

The following unaudited pro forma results of our operations for the three and nine months ended September 30, 2015 and 2014 assume the 2015 acquisitions occurred as of January 1, 2014. The translators are start-up stations and therefore, have no pro forma revenue and expenses. The pro forma results give effect to certain adjustments, including depreciation, amortization of intangible assets, increased interest expense on acquisition debt and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations which would actually have occurred had the combinations been in effect on the dates indicated or which may occur in the future.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Pro forma Consolidated Results of Operations				
Net operating revenue	$34,243	$35,433	$99,723	$100,828
Station operating expense	24,654	27,151	73,362	75,186
Corporate general and administrative	2,577	2,307	7,642	6,580
Other operating expenses, net	433	—	447	—
Operating income	6,579	5,975	18,272	19,062
Interest expense	229	268	714	812
Write-off of debt issuance costs	557	—	557	—
Other (income) expense, net	—	7	(417)	(38)
Income taxes	2,632	2,293	7,399	7,339
Net income	$3,161	$3,407	$10,019	$10,949
Basic earnings per share	$.55	$.60	$1.76	$1.92
Diluted earnings per share	$.55	$.59	$1.74	$1.90

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	2014	2015	2014
	(In thousands)			
Radio Broadcasting Segment				
Net operating revenue	$28,948	$30,460	$84,302	$86,377
Station operating expense	21,155	23,867	63,028	65,395
Other operating expenses, net	400	—	414	—
Operating income	$7,393	$6,593	$20,860	$20,982

	Three Months Ended	**Nine Months Ended September 30,**

	September 30,			
	2015	2014	2015	2014
	(In thousands)			
Television Broadcasting Segment				
Net operating revenue	$5,295	$4,973	$ 15,421	$ 14,451
Station operating expense	3,499	3,284	10,334	9,791
Other operating expenses, net	33	—	33	—
Operating income	$1,763	$1,689	$ 5,054	$ 4,660

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, 2015:				
Net operating revenue	$28,948	$ 5,295	$ —	$ 34,243
Station operating expense	21,155	3,499	—	24,654
Corporate general and administrative	—	—	2,577	2,577
Other operating expenses, net	400	33	—	433
Operating income (loss)	$7,393	$ 1,763	$ (2,577)	$ 6,579

12

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Radio	Television	**Corporate and Other**	Consolidated
	(In thousands)			
Three Months Ended September 30, 2014:				
Net operating revenue	$30,460	$ 4,973	$ —	$ 35,433
Station operating expense	23,867	3,284	—	27,151
Corporate general and administrative	—	—	2,307	2,307
Operating income (loss)	$6,593	$ 1,689	$ (2,307)	$ 5,975

	Radio	Television	**Corporate and Other**	Consolidated
	(In thousands)			
Nine Months Ended September 30, 2015:				
Net operating revenue	$84,302	$ 15,421	$ —	$ 99,723
Station operating expense	63,028	10,334	—	73,362
Corporate general and administrative	—	—	7,642	7,642
Other operating expenses, net	414	33	—	447
Operating income (loss)	$20,860	$ 5,054	$ (7,642)	$ 18,272

	Radio	Television	**Corporate and Other**	Consolidated
	(In thousands)			
Nine Months Ended September 30, 2014:				
Net operating revenue	$86,377	$ 14,451	$ —	$ 100,828
Station operating expense	65,395	9,791	—	75,186
Corporate general and administrative	—	—	6,580	6,580
Operating income (loss)	$20,982	$ 4,660	$ (6,580)	$ 19,062

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

6. Stock-Based Compensation

2005 Incentive Compensation Plan

On October 16, 2013 our stockholders approved the Second Amended and Restated Saga Communications, Inc. 2005 Incentive Compensation Plan (the "Second Restated 2005 Plan"). The 2005 Incentive Compensation Plan was first approved by stockholders in 2005 and replaced our 2003 Stock Option Plan (the "2003 Plan"). The 2005 Incentive Compensation Plan was re-approved by stockholders in 2010. The changes made in the Second Restated 2005 Plan (i) increases the number of authorized shares by 233,334 shares of Common Stock, (ii) extends the date for making awards to September 6, 2018, (iii) includes directors as participants, (iv) targets awards according to groupings of participants based on ranges of base salary of employees and/or retainers of directors, (v) requires participants to retain 50% of their net annual restricted stock awards during their employment or service as a director, and (vi) includes a clawback provision. The Second Restated 2005 Plan allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to eligible employees and non-employee directors.

The number of shares of Common Stock that may be issued under the Second Restated 2005 Plan may not exceed 280,000 shares of Class B Common Stock, 900,000 shares of Class A Common Stock of which up to 620,000 shares of Class A Common Stock may be issued pursuant to incentive stock options and 280,000 Class A Common Stock issuable upon conversion of Class B Common Stock. Awards denominated in Class A Common Stock may be granted to any employee or director under the Second Restated 2005 Plan. However, awards denominated in Class B Common Stock may only be granted to Edward K. Christian, President, Chief Executive Officer, Chairman of the Board of Directors, and the holder of 100% of the outstanding Class B Common Stock of the Company. Stock options granted under the Second Restated 2005 Plan may be for terms not exceeding ten years from the date of grant and may not be exercised at a price which is less than 100% of the fair market value of shares at the date of grant.

Stock-Based Compensation

All stock options granted were fully vested and expensed at December 31, 2012, therefore there was no compensation expense related to stock options for the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, respectively.

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	213,170	$ 31.79	1.2	$2,519,147
Exercised	(125,354)	27.09		
Expired	(58,781)	43.47		
Outstanding at September 30, 2015	29,035	$ 28.47	1.6	$149,240
Exercisable at September 30, 2015	29,035	$ 28.47	1.6	$149,240

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, 2015:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2015	89,832	$ 41.20
Vested	(3,002)	45.56
Forfeited	(1,982)	43.62
Non-vested and outstanding at September 30, 2015	84,848	$ 40.99

For the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, we had $373,000, $1,200,000, $193,000 and $572,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. This expense is included in corporate general and administrative expenses in our results of operations. The associated tax benefit recognized for the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, was $149,000, $480,000, $77,000 and $229,000, respectively.

7. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Credit Facility:		

Revolving Credit Facility	$35,287	$ —
Old Credit Agreement:		
Term Loan	—	30,000
Revolving credit	—	5,000
Secured debt of affiliate	1,078	1,078
	36,365	36,078
Amounts payable within one year	—	—
	$36,365	$ 36,078

On August 18, 2015, we entered into a new credit facility (the "Credit Facility") with JPMorgan Chase Bank, N.A., The Huntington National Bank, Citizens Bank, National Association and J.P. Morgan Securities LLC. In connection with the execution of the Credit Facility, the credit agreement in place at June 30, 2015 (the "Old Credit Agreement") was terminated, and all outstanding amounts were paid in full. The Credit Facility consists of a $100 million five-year revolving facility (the "Revolving Credit Facility") and matures on August 18, 2020.

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 proceeds from the Credit Facility were used to repay all amounts outstanding on our Old Credit Agreement and pay transactional fees. 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. We wrote-off unamortized debt issuance costs relating to the Old Credit Agreement of approximately $557,000, pre-tax, due to entering into this new agreement during the quarter ended September 30, 2015.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

Approximately $261,000 of transaction fees related to the Credit Facility were capitalized and are being amortized over the life of the Credit Facility. Those deferred debt costs are included in other assets, net in the condensed consolidated balance sheets.

Interest rates under the Credit Facility are payable, at our option, at alternatives equal to LIBOR (0.25% at September 30, 2015), plus 1% to 2% or the base rate plus 0% to 1%. The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. Letter of credit issued under the Credit Facility will be subject to a participation fee (which is equal to the interest rate applicable to Eurocurrency Loans, as defined in the Credit Agreement) payable to each of the Lenders and a fronting fee equal to 0.25% per annum payable to the issuing bank. We also pay quarterly commitment fees of 0.2% to 0.3% per annum on the unused portion of the Revolving Credit Facility.

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at September 30, 2015) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

We had approximately $64 million of unused borrowing capacity under the Revolving Credit Facility at September 30, 2015.

Our Old Credit Agreement consisted of a $30 million term loan and a $90 million revolving loan maturing on May 31, 2018. Our indebtedness under the Old Credit Agreement was 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 Old Credit Agreement was used for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

Interest rates under the Old Credit Agreement were payable, at our option, at alternatives equal to LIBOR (0.16925% at December 31, 2014), plus 1.25% to 2.25% or the base rate plus 0.25% to 1.25%. The spread over LIBOR and the base rate varied from time to time, depending upon our financial leverage. We also paid quarterly commitment fees of 0.25% to 0.35% per annum on the unused portion of the Revolving Credit Facility under the Old Credit Agreement.

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

8. Segment Information

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

At September 30, 2015, the Radio segment includes twenty-four markets, which includes all ninety-eight of our radio stations and one radio information network. The Television segment includes two markets and consists of four television stations and five low power television (“LPTV”) stations. The Radio and Television segments derive their revenue from the sale of commercial broadcast inventory. The category “Corporate general and administrative” represents the income and expense not allocated to reportable segments.

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended September 30, 2015:				
Net operating revenue	$28,536	$5,295	$ —	$ 33,831
Station operating expense	20,825	3,499	—	24,324
Corporate general and administrative	—	—	2,577	2,577
Other operating expense	400	33	—	433
Operating income (loss)	$7,311	$1,763	$ (2,577)	$ 6,497
Depreciation and amortization	$1,295	$347	$ 89	$ 1,731

16

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended September 30, 2014:				
Net operating revenue	$29,400	$4,973	$ —	$ 34,373
Station operating expense	23,082	3,284	—	26,366
Corporate general and administrative	—	—	2,307	2,307
Other operating expense	—	—	—	—
Operating income (loss)	$6,318	$1,689	$ (2,307)	$ 5,700
Depreciation and amortization	$1,245	$350	$ 77	$ 1,672

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Nine Months Ended September 30, 2015:				
Net operating revenue	$81,829	$15,421	$ —	$ 97,250
Station operating expense	61,006	10,334	—	71,400
Corporate general and administrative	—	—	7,642	7,642
Other operating expense	414	33	—	447
Operating income (loss)	$20,349	$5,054	$ (7,642)	$ 17,761
Depreciation and amortization	$3,676	$1,016	$ 234	$ 4,926
Total assets	$151,708	$23,131	$ 29,323	$ 204,162

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Nine Months Ended September 30, 2014:				
Net operating revenue	$83,176	$14,451	$ —	$ 97,627
Station operating expense	63,021	9,791	—	72,812
Corporate general and administrative	—	—	6,580	6,580
Other operating expense	—	—	—	—
Operating income (loss)	$20,155	$4,660	$ (6,580)	$ 18,235
Depreciation and amortization	$3,711	$1,041	$ 205	$ 4,957
Total assets	$144,650	$22,242	$ 37,623	$ 204,515

9. Litigation

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

10. Other Income and Expense

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

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS — (Continued)

11. Subsequent Events

On September 2, 2015, the Company's Board of Directors declared a regular cash dividend of $0.20 per share on its Classes A and B Common Stock. This dividend, totaling $1.2 million, which is recorded within Other accrued expenses as of September 30, 2015, was paid on October 2, 2015 to shareholders of record on September 14, 2015.

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

Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2014. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are reflected only in our discussion of consolidated results.

For purposes of business segment reporting, at September 30, 2015, we have aligned operations with similar characteristics into two business segments: Radio and Television. The Radio segment includes twenty-four markets, which includes all ninety-eight of our radio stations and one radio information network ("Network"). The Television segment includes two markets and consists of four television stations and five LPTV stations. The discussion of our operating performance focuses on segment operating income because we manage our segments primarily on operating income. Operating performance is evaluated for each individual market.

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

General

We are a broadcast company primarily engaged in acquiring, developing and operating broadcast properties. We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. We review acquisition opportunities on an ongoing basis. For additional information with respect to acquisitions, see “Liquidity and Capital Resources” below.

Recent Developments

Spectrum Auctions and Channel Sharing. The FCC is seeking to make additional spectrum available to meet future wireless broadband needs. In February 2012, the U.S. Congress adopted legislation authorizing the FCC to conduct an incentive auction whereby television broadcasters could voluntarily relinquish their spectrum in exchange for consideration. In June 2014, the FCC released a Report and Order in which it adopted a framework for the auction. Various court appeals of this Report and Order were denied in June 2015. The FCC has released various orders and public notices which set forth procedures that the FCC will follow in the incentive auction and the subsequent “repacking” of broadcast television spectrum, establish opening prices for the reverse auction for television stations to relinquish their spectrum, and resolve various technical and other issues related to the incentive auction, the possible sharing of channels by television stations, and the repurposing of television spectrum for broadband use. The FCC has announced March 29, 2016 as the commencement date for the incentive auction and has specified December 18, 2015 as the deadline for television broadcasters to file applications to participate in the auction. The reallocation of television spectrum for wireless broadband use will require many television stations to change channel or otherwise modify their technical facilities. The Company cannot predict the results of television spectrum reallocation efforts or their impact to its business. For additional information see “Item 1. Business – Other FCC Matters – Spectrum Auction and Channel Sharing” in our Annual Report on Form 10-K for the year ended December 31, 2014.

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 nine months ended September 30, 2015 and 2014, approximately 89% and 88%, respectively, of our radio segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representative firms that specialize in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a decrease in political advertising for 2015 due to the lower number of congressional, senatorial, gubernatorial and local elections in most of our markets as compared to prior year.

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

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

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

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

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

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

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

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

We are continuing to expand our digital initiative to provide a seamless experience across numerous platforms to allow our listeners and viewers to connect with our products where and when they want. We have also opened up a new set of digital inventory in the form of targeted display advertising across 98% of the web. This gives our representatives an expanded menu of services to offer our clients while not impacting any of our on-air inventory. In addition to targeted display, we continue to offer an array of digital services that include online promotions, mobile messaging, and email marketing.

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

During the nine months ended September 30, 2015 and 2014 and the years ended December 31, 2014 and 2013, our Columbus, Ohio; Des Moines, Iowa; Manchester, New Hampshire; Milwaukee, Wisconsin; and Norfolk, Virginia markets, when combined, represented approximately 35%, 34%, 34% and 34%, respectively, of our consolidated net operating revenue. An adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole.

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

	Percentage of Consolidated Net Operating Revenue for the Nine Months Ended September 30,				Percentage of Consolidated Net Operating Revenue for the Years Ended December 31,			
	2015		2014		2014		2013	
Market:								
Columbus, Ohio	7	%	7	%	7	%	7	%
Des Moines, Iowa	7	%	6	%	6	%	7	%
Manchester, New Hampshire	5	%	5	%	5	%	5	%
Milwaukee, Wisconsin	11	%	11	%	11	%	10	%
Norfolk, Virginia	5	%	5	%	5	%	5	%

During the nine months ended September 30, 2015 and 2014 and the years ended December 31, 2014 and 2013, the radio stations in our five largest markets when combined, represented approximately 35%, 35%, 32% and 39%, 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,	
	2015	2014	2014	2013
Market:				
Columbus, Ohio	8 %	6 %	7 %	8 %
Des Moines, Iowa	6 %	6 %	5 %	5 %
Manchester, New Hampshire	6 %	8 %	7 %	8 %
Milwaukee, Wisconsin	11 %	9 %	10 %	11 %
Norfolk, Virginia	4 %	6 %	3 %	7 %

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

20

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 nine months ended September 30, 2015 and 2014, approximately 85% and 83%, respectively, of our television segment's gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a decrease in political advertising for 2015 due to the lower number of congressional, senatorial, gubernatorial and local elections in most of our markets as compared to prior year.

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

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

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Results of Operations

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

Consolidated Results of Operations

	Three Months Ended September 30, 2015	2014	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 33,831	$ 34,373	$ (542)	(1.6)%
Station operating expense	24,324	26,366	(2,042)	(7.7)%
Corporate general and administrative	2,577	2,307	270	11.7 %
Other operating expense	433	—	433	N/M
Operating income	6,497	5,700	797	14.0 %
Interest expense	229	268	(39)	(14.6)%
Write-off of debt issuance costs	557	—	557	N/M
Other (income) expense, net	—	7	(7)	N/M
Income tax provision	2,599	2,180	419	19.2 %
Net income	$ 3,112	$ 3,245	$ (133)	(4.1)%
Earnings per share (diluted)	$ .53	$ .56	$ (.03)	(5.4)%

Radio Broadcasting Segment

	Three Months Ended September 30, 2015	2014	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages)			
Net operating revenue	$28,536	$29,400	$ (864)	(2.9)%
Station operating expense	20,825	23,082	(2,257)	(9.8)%
Other operating expense	400	—	400	N/M
Operating income	$7,311	$6,318	$ 993	15.7 %

Television Broadcasting Segment

	Three Months Ended September 30,		$ Increase	% Increase
	2015	2014	(Decrease)	(Decrease)
	(In thousands, except percentages)			
Net operating revenue	$ 5,295	$ 4,973	$ 322	6.5 %
Station operating expense	3,499	3,284	215	6.6 %
Other operating expense	33	—	33	N/M
Operating income	$ 1,763	$ 1,689	$ 74	4.4 %

N/M = Not Meaningful

22

Reconciliation of segment operating income to consolidated operating income:

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2015:				
Net operating revenue	$28,536	$ 5,295	$ —	$ 33,831
Station operating expense	20,825	3,499	—	24,324
Corporate general and administrative	—	—	2,577	2,577
Other operating expense	400	33	—	433
Operating income (loss)	$7,311	$ 1,763	$ (2,577)	$ 6,497

	Radio	Television	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2014:				
Net operating revenue	$29,400	$ 4,973	$ —	$ 34,373
Station operating expense	23,082	3,284	—	26,366
Corporate general and administrative	—	—	2,307	2,307
Other operating expense	—	—	—	—
Operating income (loss)	$6,318	$ 1,689	$ (2,307)	$ 5,700

Consolidated

For the three months ended September 30, 2015, consolidated net operating revenue was $33,831,000 compared with $34,373,000 for the three months ended September 30, 2014, a decrease of $542,000 or 1.6%. $455,000 of this decrease is attributable to stations we owned or operated for the comparable period in 2014 (“same station”). The decrease in same station revenue was primarily a result of a decrease in gross political revenue of $990,000 offset by an increase in gross retransmission revenue of approximately $476,000 from the third quarter of 2014. The decrease in gross political revenue was due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets. The increase in gross retransmission revenue was due to increases in both of our television markets during the third quarter of 2015.

Station operating expense was $24,324,000 for the three months ended September 30, 2015, compared with $26,366,000 for the three months ended September 30, 2014, a decrease of $2,042,000 or 7.7%. The overall decrease was attributable to a decrease of $1,891,000 for those stations we owned and operated for the entire comparable period. The decrease in same station operating expense was primarily due to a decrease in ratings licensing agreements of $1,900,000.

Operating income for the three months ended September 30, 2015 was $6,497,000 compared to $5,700,000 for the three months ended September 30, 2014, an increase of $797,000 or 14%. The increase was a result of the decrease in station operating expense offset by a decrease in net operating revenue, described above an increase in our corporate general and administrative expenses of $270,000 or 11.7% and an increase in other operating expense of $433,000, from the third quarter of 2014. The increase in corporate expenses is due to increases in non-cash compensation related to the amortization of restricted stock grants of $180,000, an increase in consulting fees of $175,000, offset by a decrease in legal expense of $111,000. The increase in other operating expenses is from the loss of $400,000 incurred from the donation of WBOP-FM to Liberty University, Inc., as discussed in Note 5 of the financial statements.

We generated net income of $3,112,000 ($.53 per share on a fully diluted basis) during the three months ended September 30, 2015, compared to $3,245,000 ($.56 per share on a fully diluted basis) for the three months ended September 30, 2014, a decrease of $133,000 or 4.1%. We had an increase in operating income of $797,000, as described above, and a decrease in interest expense of $39,000 offset by an increase in the write-off of debt issuance costs of $557,000 related to the new Credit Facility entered into during the third quarter of 2015 and an increase in income tax expense of $419,000.

Radio Segment

For the three months ended September 30, 2015, net operating revenue of the radio segment was $28,536,000 compared with $29,400,000 for the three months ended September 30, 2014, which represents a decrease of $864,000 or 2.9%. During 2015, we had a decline of approximately $777,000 or 2.7% in net revenue generated by radio stations that we owned or operated for the comparable period in 2014. The decrease in same station revenue was primarily attributable to the decrease in gross political revenue due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Station operating expense for the radio segment was $20,825,000 for the three months ended September 30, 2015, compared with $23,082,000 for the three months ended September 30, 2014, a decrease of $2,257,000 or 9.8%. The decrease in station operating expense for the radio segment represents primarily a decrease of approximately $2,106,000 in same station operating expense and a decrease of $151,000 in stations we did not own or operate for the comparable period in 2014. The decrease in radio same station is primarily a result of a decrease in ratings licensing agreements of $1,900,000, and a decrease in compensation costs of $135,000.

Operating income in the radio segment increased $993,000 or 15.7% to $7,311,000 for the three months ended September 30, 2015, from $6,318,000 for the three months ended September 30, 2014. The increase was a result of the decrease in station operating expense partially offset by the decrease in net operating revenue as described above and the increase in other operating expenses due to the loss of $400,000 incurred from the donation of WBOP-FM to Liberty University, Inc.

Television Segment

For the three months ended September 30, 2015, net operating revenue of our television segment was $5,295,000 compared with $4,973,000 for the three months ended September 30, 2014, an increase of $322,000 or 6.5% which was primarily related to an increase in gross retransmission revenue of $467,000, offset by a decrease in gross political revenue of $176,000. The decrease in gross political revenue was due to a lower number of congressional, senatorial, gubernatorial and local elections in most of our markets.

Station operating expense in the television segment for the three months ended September 30, 2015 was $3,499,000, compared with $3,284,000 for the three months ended September 30, 2014, an increase of $215,000 or 6.6%. The increase is primarily related to an increase in retransmission fees.

Operating income in the television segment for the three months ended September 30, 2015 was $1,763,000 compared with $1,689,000 for the three months ended September 30, 2014, an increase of $74,000 or 4.4%. The increase was a direct result of the increase in net operating revenue partially offset by the increase in station operating expense described above.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Results of Operations

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

Consolidated Results of Operations

	Nine Months Ended September 30, 2015	2014	$ Increase (Decrease)	% Increase (Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 97,250	$ 97,627	$ (377)	(0.4)%
Station operating expense	71,400	72,812	(1,412)	(1.9)%
Corporate general and administrative	7,642	6,580	1,062	