

SAGA COMMUNICATIONS INC

Form 10-K

March 13, 2006

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

Form 10-K

(Mark one)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-11588

SAGA COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

38-3042953
(I.R.S. Employer Identification No.)

73 Kercheval Avenue
Grosse Pointe Farms, Michigan
(Address of principal executive offices)

48236
(Zip Code)

Registrant's telephone number, including area code:
(313) 886-7070

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------------------------|--|
| Class A Common Stock, \$.01 par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

large accelerated filer

accelerated filer

non-accelerated filer

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

Aggregate market value of the Class A Common Stock and the Class B Common Stock (assuming conversion thereof into Class A Common Stock) held by nonaffiliates of the registrant, computed on the basis of \$14.00 per share (the closing price of the Class A Common Stock on June 30, 2005 on the New York Stock Exchange): \$252,218,750.

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 March 7, 2006 was 18,098,028 and 2,369,577, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2006 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission on or before May 1, 2006) is incorporated by reference in Part III hereof.

**Saga Communications, Inc.
2005 Form 10-K Annual Report**

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Forward-Looking Statements

Statements contained in this Form 10-K that are not historical facts are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as believes, anticipates, estimates, plans, expects, and similar expressions are intended to identify forward-looking statements. These statements are made as of the date of this report or as otherwise indicated, based on current expectations. We undertake no obligation to update this information. A number of important factors could cause our actual results for 2006 and beyond to differ materially from those expressed in any forward-looking statements made by or on our behalf. Forward-looking statements are not guarantees of future performance as they involve a number of risks, uncertainties and assumptions that may prove to be incorrect and that may cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks, uncertainties and assumptions that may affect our performance, which are described in Item 1A of this report, 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.

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PART I

Item 1. *Business*

We are a broadcast company primarily engaged in acquiring, developing and operating radio and television stations. As of December 31, 2005 we owned or operated eighty-seven radio stations, five television stations, four low-power television stations and five radio information networks serving twenty-six markets throughout the United States. We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. We review acquisition opportunities on an ongoing basis.

Recent Developments

Since January 1, 2005, we have entered into the following transactions regarding acquisitions, Time Brokerage Agreements (TBAs), and Shared Services Agreements for stations serving the markets indicated. The following are included in our results of operations for the year ended December 31, 2005:

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

Effective June 1, 2005 we acquired two FM and two AM radio stations (WQNY-FM, WYXL-FM, WNYX-AM and WHCU-AM) serving the Ithaca, New York market for approximately \$13,610,000 including \$2,602,000 of our Class A common stock.

Effective January 1, 2005, we acquired one AM and two FM radio stations (WINA-AM, WWWV-FM and WQMZ-FM) serving the Charlottesville, Virginia market for approximately \$22,490,000 including approximately \$1,986,000 of our Class A common stock.

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

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

In addition, the following transaction was pending at December 31, 2005:

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

For additional information with respect to these acquisitions and disposals, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Business

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As of February 28, 2006, we owned, operated or shared services with five television stations and four low-power television stations serving three markets, five radio information networks, and fifty-seven FM and thirty AM radio stations serving twenty-three markets, including Columbus, Ohio; Norfolk, Virginia; and Milwaukee, Wisconsin.

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The following table sets forth information about our radio stations and the markets they serve as of February 28, 2006:

| Station | Market (a) | 2005 Market Ranking by Radio Revenue (b) | 2005 Market Ranking by Radio Market (b) | Station Format | Fall 2005 Target Demographics Ranking (by Listeners) (c) | Target Demographics |
|----------------|-------------------|---|--|-----------------------------|---|--------------------------------|
| FM: | | | | | | |
| WSNY | Columbus, OH | 27 | 35 | Adult Contemporary | 2 | Women 25-54 |
| WODB | Columbus, OH | 27 | 35 | Oldies | 11(e) | Adults 45-64 |
| WJZA | Columbus, OH | 27 | 35 | Smooth Jazz | 15(e)(d) | Adults 35-54 |
| WJZK | Columbus, OH | 27 | 35 | Smooth Jazz | 15(e)(d) | Adults 35-54 |
| WKLH | Milwaukee, WI | 33 | 32 | Classic Hits | 3 | Men 35-54 |
| WHQG | Milwaukee, WI | 33 | 32 | Rock | 1 | Men 25-44 |
| WJMR-FM | Milwaukee, WI | 33 | 32 | Urban Adult Contemporary | 2 | Women 25-49 |
| WFMR | Milwaukee, WI | 33 | 32 | Classical | 9(e) | Adults 45+ |
| WNOR | Norfolk, VA | 41 | 40 | Rock | 3(e) | Men 18-49 |
| WAFX | Norfolk, VA | 41 | 40 | Classic Rock | 1 | Men 35-54 |
| KSTZ | Des Moines, IA | 75 | 91 | Hot Adult Contemporary | 1 | Women 25-44 |
| KIOA | Des Moines, IA | 75 | 91 | Oldies | 2 | Adults 45-64 |
| KAZR | Des Moines, IA | 75 | 91 | Rock | 1 | Men 18-34 |
| KLTI | Des Moines, IA | 75 | 91 | Soft Adult Contemporary | 1 | Women 35-54 |
| WAQY | Springfield, MA | 106 | 80 | Classic Rock | 1 | Men 35-54 |
| WLZX | Springfield, MA | 106 | 80 | Rock | 2 | Men 18-34 |
| WRSI | Northampton, MA | N/A | 80 | Progressive | 3(e)(d) | Adults 35-54 |
| WRSY | Brattleboro, VT | N/A | N/A | Progressive | 3(e)(d) | Adults 35-54 |
| WHAI | Greenfield, MA | N/A | N/A | Adult Contemporary | 1 | Women 18+ |
| WPVQ | Greenfield, MA | N/A | N/A | Country | 2 | Adults 35+ |
| WMGX | Portland, ME | 111 | 166 | Adult Contemporary | 5(e) | Women 25-54 |
| WYNZ | Portland, ME | 111 | 166 | Oldies | 5(e) | Adults 45-64 |
| WPOR | Portland, ME | 111 | 166 | Country | 1 | Adults 35-64 |
| WZID | Manchester | 117 | 187 | Adult Contemporary | 1 | Adults 25-54 |
| WMLL | Manchester | 117 | 187 | Classic Rock | 1(e) | Men 35-54 |
| WLRW | Champaign, IL | 160 | 216 | Hot Adult Contemporary | N/S | Women 25-44 |
| WIXY | Champaign, IL | 160 | 216 | Country | N/S | Adults 25-54 |
| WCFF | Champaign, IL | 160 | 216 | Variety | N/S | Adults 35-54 |
| WXTT | Champaign, IL | 160 | 216 | Rock | N/S | Men 18-49 |
| WYMG | Springfield, IL | N/A | N/A | Classic Hits | N/R | Men 25-54 |
| WQQL | Springfield, IL | N/A | N/A | Oldies | N/R | Adults 45-64 |
| WDBR | Springfield, IL | N/A | N/A | Contemporary Hits | N/R | Women 18-34 |

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| | | | | | | |
|------|-------------------------------------|-----|-----|---------------------------|------|--------------|
| WABZ | Springfield, IL | N/A | N/A | Variety | N/R | Adults 25-44 |
| WOXL | Asheville, NC | 164 | 162 | Oldies | 2(d) | Adults 35-64 |
| WNAX | Sioux City IA | 206 | 272 | Country | N/S | Adults 35+ |
| KDEZ | Jonesboro, AR | 250 | 290 | Classic Rock | 1 | Men 25-54 |
| KDXY | Jonesboro, AR | 250 | 290 | Country | 1 | Adults 25-54 |
| KJBX | Jonesboro, AR | 250 | 290 | Adult Contemporary | 2 | Women 25-54 |
| WCVQ | Clarksville- TN, | 256 | 206 | Hot Adult Contemporary | 2(e) | Women 25-54 |
| | Hopkinsville KY | | | | | |
| WVVR | Clarksville- TN, Hopkinsville KY | 256 | 206 | Country | 2 | Adults 25-54 |

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| Station | Market (a) | 2005 Market Ranking by Radio Revenue (b) | 2005 Market Ranking by Radio Market (b) | Station Format | Fall 2005 Target Demographics Ranking (by Listeners) (c) | Target Demographics |
|----------------|-------------------------------------|---|--|------------------------|---|--------------------------------|
| WZZP | Clarksville- TN, Hopkinsville KY | 256 | 206 | Rock | 1(e) | Men 18-34 |
| WEGI | Clarksville- TN, Hopkinsville KY | 256 | 206 | Classic Hits | 1(e) | Men 35-54 |
| KISM | Bellingham, WA | N/A | N/A | Classic Rock | N/R | Men 25-49 |
| KAFE | Bellingham, WA | N/A | N/A | Adult Contemporary | N/R | Women 25-54 |
| KICD | Spencer, IA | N/A | N/A | Country | N/R | Adults 35+ |
| KLLT | Spencer, IA | N/A | N/A | Adult Contemporary | N/R | Women 25-54 |
| KMIT | Mitchell, SD | N/A | N/A | Country | N/R | Adults 35+ |
| KUQL | Mitchell, SD | N/A | N/A | Oldies | N/R | Adults 45-64 |
| WKVT | Brattleboro, VT | N/A | N/A | Classic Rock | N/R | Men 35-54 |
| WKNE | Keene, NH | N/A | N/A | Hot Adult Contemporary | N/R | Women 25-54 |
| WOQL | Keene, NH | N/A | N/A | Oldies | N/R | Adults 45-64 |
| WINQ | Keene, NH | N/A | N/A | Country | N/R | Adults 35+ |
| WQEL | Bucyrus, OH | N/A | N/A | Classic Hits | N/R | Men 25-54 |
| WQNY | Ithaca, NY | 277 | 281 | Country | N/S | Adults 35+ |
| WYXL | Ithaca, NY | 277 | 281 | Adult Contemporary | N/S | Women 25-54 |
| WWWV | Charlottesville, VA | 213 | 231 | Rock | 1 | Men 25-54 |
| WQMZ | Charlottesville, VA | 213 | 231 | Adult Contemporary | 1 | Women 25-54 |
| AM: | | | | | | |
| WJYI | Milwaukee, WI | 33 | 32 | Contemporary Christian | N/R | Adults 18+ |
| WJOI | Norfolk, VA | 41 | 40 | Nostalgia | 9 | Adults 45+ |
| KRNT | Des Moines, IA | 75 | 91 | Nostalgia/Sports | 4 | Adults 45+ |
| KPSZ | Des Moines, IA | 75 | 91 | Contemporary Christian | N/R | Adults 18+ |
| WHMP | Northampton, MA | 106 | 80 | News/Talk | 6(e)(d) | Adults 35+ |
| WHNP | Springfield, MA | 106 | 80 | News/Talk | 6(e)(d) | Adults 35+ |
| WHMQ | Greenfield, MA | N/A | N/A | News/Talk | 6(e)(d) | Adults 35+ |
| WGAN | Portland, ME | 111 | 166 | News/Talk | 1 | Adults 35+ |
| WZAN | Portland, ME | 111 | 166 | News/Talk/Sports | 7(e) | Men 25-54 |
| WBAE | Portland, ME | 111 | 166 | Nostalgia | N/R | Adults 45+ |
| WVAE | Portland, ME | 111 | 166 | Nostalgia/Sports | N/R | Adults 35+ |
| WFEA | Manchester, NH | 117 | 187 | Adult Standards/Sports | 3 | Adults 45+ |
| WTAX | Springfield, IL | N/A | N/A | News/Talk | N/R | Adults 35+ |
| WISE | Asheville, NC | 164 | 162 | Sports/Talk | 10(e) | Men 18+ |
| WLZR | Asheville, NC | 164 | 162 | Oldies | 2(d) | Adults 35-64 |
| WNAX | Yankton, SD | 206 | 272 | News/Talk | N/S | Adults 35+ |
| WJQI | Clarksville- TN, Hopkinsville KY | 256 | 206 | Contemporary Christian | N/R | Adults 18+ |
| WKFN | Clarksville- TN, | 256 | 206 | Sports/Talk | N/R | Men 18+ |

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| | | | | | | | |
|------|-----------------|----|-----|-----|-----------------|-----|------------|
| | Hopkinsville | KY | | | | | |
| KGMI | Bellingham, WA | | N/A | N/A | News/Talk | N/A | Adults 35+ |
| KPUG | Bellingham, WA | | N/A | N/A | Sports/Talk | N/A | Men 18+ |
| KBAI | Bellingham, WA | | N/A | N/A | Adult Standards | N/A | Adults 45+ |
| KICD | Spencer, IA | | N/A | N/A | News/Talk | N/A | Adults 35+ |
| WKVT | Brattleboro, VT | | N/A | N/A | News/Talk | N/A | Adults 35+ |
| WKBK | Keene, NH | | N/A | N/A | News/Talk | N/A | Adults 35+ |

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| Station | Market (a) | 2005 Market Ranking by Radio Revenue (b) | 2005 Market Ranking by Radio Market (b) | Station Format | Fall 2005 Target Demographics Ranking (by Listeners) (c) | Target Demographics |
|----------------|---------------------|---|--|-----------------------|---|----------------------------|
| WZBK | Keene, NH | N/A | N/A | Nostalgia | N/A | Adults 45+ |
| WBCO | Bucyrus, OH | N/A | N/A | Adult Standards | N/A | Adults 45+ |
| WNYX | Ithaca, NY | 277 | 281 | News/Talk | N/S | Adults 35+ |
| WHCU | Ithaca, NY | 277 | 281 | News/Talk | N/S | Adults 35+ |
| WINA | Charlottesville, VA | 213 | 231 | News/Talk | 2 | Adults 35+ |
| WVAX | Charlottesville, VA | 213 | 231 | News/Talk | N/A(f) | Adults 35+ |

(a) Actual city of license may differ from metropolitan market actually served.

(b) Derived from Investing in Radio 2005 Market Report.

(c) Information derived from most recent available Arbitron Radio Market Report.

(d) Since stations are simulcast, ranking information pertains to the combined stations.

(e) Tied for position.

(f) Station currently not on the air.

N/A Information is currently not available.

N/R Station does not appear in Arbitron Radio Market Report.

N/S Station is a non-subscriber to the Arbitron Radio Market Report.

The following table sets forth information about our television stations and the markets they serve as of February 28, 2006:

| Station | Market (a) | 2005 Market Ranking by Number of TV Households (b) | Station Affiliate | Fall 2005 Station Ranking (by # of viewers) (b) | |
|----------------|-------------------|---|--------------------------|--|---|
| KOAM | Joplin, MO | Pittsburg, KS | 145 | CBS | 1 |
| KFJX (d) | Joplin, MO | Pittsburg, KS | 145 | FOX | 4 |
| WXVT | Greenwood | Greenville, MS | 182 | CBS | 2 |

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| | | | | |
|----------|--------------|-----|-----------|---|
| KAVU | Victoria, TX | 205 | ABC | 1 |
| KVCT (c) | Victoria, TX | 205 | FOX | 2 |
| KUNU-LP | Victoria, TX | 205 | Univision | 3 |
| KVTX-LP | Victoria, TX | 205 | Telemundo | 5 |
| KXTS-LP | Victoria, TX | 205 | UPN | 6 |
| KMOL-LP | Victoria, TX | 205 | NBC | 4 |

- (a) Actual city of license may differ from metropolitan market actually served.
- (b) Derived from Investing in Television Market Report 2005, based on A.C. Nielson ratings and data.
- (c) Station operated under the terms of a TBA.
- (d) Services shared with Surtsey Media, LLC station under the terms of a Shared Services Agreement.

N/A Information is currently unavailable.

For purposes of business segment reporting, we have aligned operations with similar characteristics into two business segments: Radio and Television. The Radio segment includes twenty-three markets, which includes all eighty-seven of our radio stations and five radio information networks. The Television segment includes three markets and consists of five television stations and four low power television (LPTV) stations.

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For more information regarding our reportable segments, see Note 13 to the consolidated financial statements, which is incorporated herein by reference.

Strategy

Our strategy is to operate top billing radio and television stations in mid-sized markets, which we define as markets ranked from 20 to 200 out of the markets summarized by Investing in Radio Market Report and Investing in Television Market Report. As of February 28, 2006, we owned and/or operated at least one of the top two billing stations in each of our radio and television markets for which independent data exists.

Based on the most recent information available, 16 of our 35 FM radio stations that subscribe to independent ratings services were ranked number one (by number of listeners) in their target demographic markets, and 2 of our 9 television stations were ranked number one (by number of viewers), in their markets. Programming and marketing are key components in our strategy to achieve top ratings in both our radio and television operations. In many of our markets, the three or four most highly rated stations (radio and/or television) receive a disproportionately high share of the market's advertising revenues. As a result, a station's revenue is dependent upon its ability to maximize its number of listeners/viewers within an advertiser's given demographic parameters. In certain cases we use attributes other than specific market listener data for sales activities. In those markets where sufficient alternative data is available, we do not subscribe to an independent listener rating service.

The radio stations that we own and/or operate employ a variety of programming formats, including Classic Hits, Adult Contemporary, Album Oriented Rock, News/Talk, Country and Classical. We regularly perform extensive market research, including music evaluations, focus groups and strategic vulnerability studies. Our stations also employ audience promotions to further develop and secure a loyal following.

The television stations that we own and/or operate are comprised of two CBS affiliates, one ABC affiliate, two Fox affiliates, one Univision affiliate, one NBC affiliate, one UPN affiliate and one Telemundo affiliate. In addition to securing network programming, we also carefully select available syndicated programming to maximize viewership. We also develop local programming, including a strong local news franchise in each of our television markets.

We concentrate on the development of strong decentralized local management, which is responsible for the day-to-day operations of the stations we own and/or operate. We compensate local management based on the station's financial performance, as well as other performance factors that are deemed to effect the long-term ability of the stations to achieve financial performance objectives. Corporate management is responsible for long-range planning, establishing policies and procedures, resource allocation and monitoring the activities of the stations.

We actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. Under the Telecommunications Act of 1996 (the Telecommunications Act), we are permitted to own as many as 8 radio stations in a single market. See Federal Regulation of Radio and Television Broadcasting. We seek to acquire reasonably priced broadcast properties with significant growth potential that are located in markets with well-established and relatively stable economies. We often focus on local economies supported by a strong presence of state or federal government or one or more major universities. Future acquisitions will be subject to the availability of financing and compliance with the Communications Act of 1934 (the Communications Act) and FCC rules. We review acquisition opportunities on an ongoing basis.

Advertising Sales

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

advertisements broadcast on our television stations may be limited by certain network affiliation and syndication agreements and, with respect to children's programs, federal regulation. We determine the number of advertisements broadcast hourly that can maximize a station's available revenue

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

Advertising rates charged by radio and television stations are based primarily on a station's ability to attract audiences in the demographic groups targeted by advertisers, the number of stations in the market competing for the same demographic group, the supply of and demand for radio and television advertising time, and other qualitative factors including rates charged by competing radio and television stations within a given market. Radio rates are generally highest during morning and afternoon drive-time hours, while television advertising rates are generally higher during prime time evening viewing periods. Most advertising contracts are short-term, generally running for only a few weeks. This allows broadcasters the ability to modify advertising rates as dictated by changes in station ownership within a market, changes in listener/viewer ratings and changes in the business climate within a particular market.

Approximately \$131,401,000 or 84% of our gross revenue for the year ended December 31, 2005 (approximately \$124,878,000 or 83% in fiscal 2004 and approximately \$109,666,000 or 81% in fiscal 2003) was generated from the sale of local advertising. Additional revenue is generated from the sale of national advertising, network compensation payments, barter and other miscellaneous transactions. In all our markets, we attempt to maintain a local sales force that is generally larger than our competitors. The principal goal in our sales efforts is to develop long-standing customer relationships through frequent direct contacts, which we believe represents a competitive advantage. We also typically provide incentives to our sales staff to seek out new opportunities resulting in the establishment of new client relationships, as well as new sources of revenue, not directly associated with the sale of broadcast time.

Each of our stations also engages independent national sales representatives to assist us in obtaining national advertising revenues. These representatives obtain advertising through national advertising agencies and receive a commission from us based on our net revenue from the advertising obtained. Total gross revenue resulting from national advertising in fiscal 2005 was approximately \$25,162,000 or 16% of our gross revenue (approximately \$25,419,000 or 17% in fiscal 2004 and approximately \$25,470,000 or 19% in fiscal 2003).

Competition

Both radio and television broadcasting are highly competitive businesses. Our stations compete for listeners/viewers and advertising revenues directly with other radio and/or television stations, as well as other media, within their markets. Our radio and television stations compete for listeners/viewers primarily on the basis of program content and by employing on-air talent which appeals to a particular demographic group. By building a strong listener/viewer base comprised of a specific demographic group in each of its markets, we are able to attract advertisers seeking to reach these listeners/viewers.

Other media, including broadcast television and/or radio (as applicable), cable television, newspapers, magazines, direct mail, the internet, coupons and billboard advertising, also compete with us for advertising revenues.

The radio and television broadcasting industries are also subject to competition from new media technologies, such as the delivery of audio programming by cable and satellite television systems, satellite radio systems, direct reception from satellites, and streaming of audio on the Internet. We cannot predict what effect, if any, any of these new technologies may have on us or the broadcasting industry.

Seasonality

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, is generally lowest in the first quarter.

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Employees

As of December 31, 2005, we had approximately 934 full-time employees and 407 part-time employees, none of whom are represented by unions. We believe that our relations with our employees are good.

We employ several high-profile personalities with large loyal audiences in their respective markets. We have entered into employment and non-competition agreements with our President and with most of our on-air personalities, as well as non-competition agreements with our commissioned sales representatives.

Available Information

You can find more information about us at our Internet website located at www.sagacommunications.com. Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports are available free of charge on our Internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC").

Federal Regulation of Radio and Television Broadcasting

Introduction. The ownership, operation and sale of radio and television stations, including those licensed to us, are subject to the jurisdiction of the FCC, which acts under authority granted by the Communications Act. Among other things, the FCC assigns frequency bands for broadcasting; determines the particular frequencies, locations and operating power of stations; issues, renews, revokes and modifies station licenses; determines whether to approve changes in ownership or control of station licenses; regulates equipment used by stations; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules or the Communications Act. For additional information on the impact of FCC regulations and the introduction of new technologies on our operations, see Forward Looking Statements; Risk Factors below.

The following is a brief summary of certain provisions of the Communications Act and of specific FCC regulations and policies. Reference should be made to the Communications Act, FCC rules and the public notices and rulings of the FCC for further information concerning the nature and extent of federal regulation of broadcast stations.

License Renewal. Radio and television broadcasting licenses are granted for maximum terms of eight years, and are subject to renewal upon application to the FCC. Under its two-step renewal process, the FCC must grant a renewal application if it finds that during the preceding term the licensee has served the public interest, convenience and necessity, and there have been no serious violations of the Communications Act or the FCC's rules which, taken together, would constitute a pattern of abuse. If a renewal applicant fails to meet these standards, the FCC may either deny its application or grant the application on such terms and conditions as are appropriate, including renewal for less than the full 8-year term. In making the determination of whether to renew the license, the FCC may not consider whether the public interest would be served by the grant of a license to a person other than the renewal applicant. If the FCC, after notice and opportunity for a hearing, finds that the licensee has failed to meet the requirements for renewal and no mitigating factors justify the imposition of lesser sanctions, the FCC may issue an order denying the renewal application, and only thereafter may the FCC accept applications for a construction permit specifying the broadcasting facilities of the former licensee. Petitions may be filed to deny the renewal applications of our stations, but any such petitions must raise issues that would cause the FCC to deny a renewal application under the standards adopted in the two-step renewal process. We have filed applications to renew the Company's radio and television station licenses, as necessary, and we intend to timely file renewal applications, as required for the Company's stations. Under the Communications Act, if a broadcast station fails to transmit signals for any consecutive 12-month period, the FCC license expires at the end of that period, unless the FCC exercises its discretion to extend or reinstate the

license to promote equity and fairness. The FCC, to date, has refused to exercise such discretion.

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The following table sets forth the market and broadcast power of each of our broadcast stations (or pending acquisitions) and the date on which each such station's FCC license expires:

| Station | Market(1) | Power (Watts)(2) | Expiration Date of FCC Authorization |
|----------------|----------------------------------|-----------------------------|---|
| FM: | | | |
| WSNY | Columbus, OH | 50,000 | October 1, 2012 |
| WODB | Columbus, OH | 6,000 | October 1, 2012 |
| WJZA | Columbus, OH | 6,000 | October 1, 2012 |
| WJZK | Columbus, OH | 6,000 | October 1, 2012 |
| WQEL | Bucyrus, OH | 3,000 | October 1, 2012 |
| WKLH | Milwaukee, WI | 50,000 | December 1, 2012 |
| WHQG | Milwaukee, WI | 50,000 | December 1, 2012 |
| WFMR | Milwaukee, WI | 6,000 | December 1, 2012 |
| WJMR | Milwaukee, WI | 6,000 | December 1, 2012 |
| WNOR | Norfolk, VA | 50,000 | October 1, 2011 |
| WAFX | Norfolk, VA | 100,000 | October 1, 2011 |
| KSTZ | Des Moines, IA | 100,000 | February 1, 2013 |
| KIOA | Des Moines, IA | 100,000 | February 1, 2013 |
| KAZR | Des Moines, IA | 100,000 | February 1, 2013 |
| KLTI | Des Moines, IA | 100,000 | February 1, 2013 |
| WMGX | Portland, ME | 50,000 | April 1, 2006(8) |
| WYNZ | Portland, ME | 25,000 | April 1, 2006(8) |
| WPOR | Portland, ME | 50,000 | April 1, 2006(8) |
| WLZX | Springfield, MA | 6,000 | April 1, 2006(8) |
| WAQY | Springfield, MA | 50,000 | April 1, 2006(8) |
| WZID | Manchester, NH | 50,000 | April 1, 2006(8) |
| WMLL | Manchester, NH | 6,000 | April 1, 2006(8) |
| WYMG | Springfield, IL | 50,000 | December 1, 2012 |
| WQQL | Springfield, IL | 50,000 | December 1, 2012 |
| WDBR | Springfield, IL | 50,000 | December 1, 2012 |
| WABZ | Springfield, IL | 25,000 | December 1, 2012 |
| WLRW | Champaign, IL | 50,000 | December 1, 2012 |
| WIXY | Champaign, IL | 25,000 | December 1, 2012 |
| WCFF | Champaign, IL | 25,000 | December 1, 2012 |
| WXTT | Champaign, IL | 50,000 | December 1, 2012 |
| WNAX | Yankton, SD | 100,000 | April 1, 2013 |
| KISM | Bellingham, WA | 100,000 | February 1, 2006(8) |
| KAFE | Bellingham, WA | 100,000 | February 1, 2006 |
| KICD | Spencer, IA | 100,000 | February 1, 2013 |
| KLLT | Spencer, IA | 25,000 | February 1, 2013 |
| WCVQ | Clarksville, TN/Hopkinsville, KY | 100,000 | August 1, 2012 |
| WZZP | Clarksville, TN/Hopkinsville, KY | 6,000 | August 1, 2012 |
| WVVV | Clarksville, TN/Hopkinsville, KY | 100,000 | August 1, 2012 |
| WEGI | Clarksville, TN/Hopkinsville, KY | 6,000 | August 1, 2012 |
| KMIT | Mitchell, SD | 100,000 | April 1, 2013 |

(footnotes follow tables)

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| Station | Market(1) | Power (Watts)(2) | Expiration Date of FCC Authorization |
|----------------|----------------------------------|-----------------------------|---|
| KUQL | Mitchell, SD | 100,000 | April 1, 2013 |
| WHAI | Greenfield, MA | 3,000 | April 1, 2006(8) |
| WKNE | Keene, NH | 50,000 | April 1, 2006(8) |
| WRSI | Northampton, MA | 3,000 | April 1, 2006(8) |
| WRSY | Brattleboro, VT | 3,000 | April 1, 2006(8) |
| WPVQ | Greenfield, MA | 3,000 | April 1, 2006(8) |
| WKVT | Brattleboro, VT | 6,000 | April 1, 2006(8) |
| WOQL | Keene, NH | 6,000 | April 1, 2006(8) |
| WOXL (6) (7) | Asheville, NC | 25,000 | December 1, 2011 |
| WINQ | Keene, NH | 6,000 | April 1, 2006(8) |
| KDEZ | Jonesboro, AR | 50,000 | June 1, 2004(8) |
| KDXY | Jonesboro, AR | 25,000 | June 1, 2012 |
| | | | Expiration Date of |
| FM: | | | |
| KJBX | Jonesboro, AR | 6,000 | June 1, 2012 |
| WWWV | Charlottesville, VA | 50,000 | October 1, 2011 |
| WQMZ | Charlottesville, VA | 6,000 | October 1, 2011 |
| WYXL | Ithaca, NY | 50,000 | June 1, 2006(8) |
| WQNY | Ithaca, NY | 50,000 | June 1, 2006(8) |
| AM: | | | |
| WJYI | Milwaukee, WI | 1,000 | December 1, 2012 |
| WJOI | Norfolk, VA | 1,000 | October 1, 2011 |
| KRNT | Des Moines, IA | 5,000 | February 1, 2013 |
| KPSZ | Des Moines, IA | 10,000 | February 1, 2013 |
| WGAN | Portland, ME | 5,000 | April 1, 2006(8) |
| WZAN | Portland, ME | 5,000 | April 1, 2006(8) |
| WBAE | Portland, ME | 1,000 | April 1, 2006(8) |
| WVAE | Portland, ME | 1,000 | April 1, 2006(8) |
| WHNP | Springfield, MA | 2,500(5) | April 1, 2006(8) |
| WHMP | Northampton, MA | 1,000 | April 1, 2006(8) |
| WFEA | Manchester, NH | 5,000 | April 1, 2006(8) |
| WTAX | Springfield, IL | 1,000 | December 1, 2012 |
| WNAX | Yankton, SD | 5,000 | April 1, 2013 |
| KGMI | Bellingham, WA | 5,000 | February 1, 2006(8) |
| KPUG | Bellingham, WA | 10,000 | February 1, 2006(8) |
| KBAI | Bellingham, WA | 1,000(5) | February 1, 2006(8) |
| KICD | Spencer, IA | 1,000 | February 1, 2013 |
| WJQI | Clarksville, TN/Hopkinsville, KY | 1,000(5) | August 1, 2012 |
| WKFN | Clarksville, TN | 1,000(5) | August 1, 2012 |
| WHMQ | Greenfield, MA | 1,000 | April 1, 2006(8) |
| WKBK | Keene, NH | 5,000 | April 1, 2006(8) |
| WZBK | Keene, NH | 1,000(5) | April 1, 2006(8) |
| WKVT | Brattleboro, VT | 1,000 | April 1, 2006(8) |

(footnotes follow tables)

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| Station | Market(1) | Power (Watts)(2) | Expiration Date of FCC Authorization |
|------------------------------------|--------------------------|---|---|
| WISE | Asheville, NC | 5,000(5) | December 1, 2011 |
| WLZR | Asheville, NC | 5,000(5) | December 1, 2011 |
| WBCO | Bucyrus, OH | 5,000(5) | October 1, 2012 |
| WINA | Charlottesville, VA | 5,000 | October 1, 2011 |
| WVAX | Charlottesville, VA | 1,000 | September 9, 2008(9) |
| WHCU | Ithaca, NY | 5,000(5) | June 1, 2006(8) |
| WNYX | Ithaca, NY | 5,000(5) | June 1, 2006(8) |
| TV/Channel: | | | |
| KOAM (NTSC Ch 7 DTV Ch 13) | Joplin, MO/Pittsburg, KS | NTSC 316,000 (vis), 61,600 (aur) | June 1, 2006(8) |
| KAVU (NTSC Ch 25 DTV Ch 15) | Victoria, TX | NTSC 2,140,000(vis), 214,000(aur) | August 1, 2006 |
| KVCT (3) (NTSC Ch 19 DTV Ch 11) | Victoria, TX | NTSC 155,000(vis), 15,500(aur) | August 1, 2006 |
| KUNU-LP (4) (Ch 21) | Victoria, TX | 1,000 (vis) | August 1, 2006 |
| KVTX-LP (4) (Ch 45) | Victoria, TX | 1,000 (vis) | August 1, 2006 |
| KXTS-LP (4) (Ch 41) | Victoria, TX | 1,000 (vis) | August 1, 2006 |
| KMOL-LP (4) (Ch 17) | Victoria, TX | 50,000 (vis) | August 1, 2006 |
| WXVT (NTSC Ch 15 DTV Ch 17) | Greenville, MS | NTSC 2,746,000(vis), 549,000(aur) | June 1, 2005(8) |

- (1) Some stations are licensed to a different community located within the market that they serve.
- (2) Some stations are licensed to operate with a combination of effective radiated power (ERP) and antenna height, which may be different from, but provide equivalent coverage to, the power shown. The ERP of television stations is expressed in terms of visual (vis) and aural (aur) components. WLZR, WISE, KPSZ (AM), KPUG (AM), KGMI (AM), KBAI (AM), WZBK(AM), WBCO(AM), WJQI, WKFN, WNYX and WHCU operate with lower power at night than the power shown.
- (3) We program this station pursuant to a TBA with the licensee of KVCT, Surtsey Media, LLC. See note 12 of the Consolidated Financial Statements for additional information on our relationship with Surtsey Media, LLC.
- (4) KUNU-LP, KXTS-LP, KVTX-LP, and KMOL-LP are low power television stations that operate as secondary stations (i.e., if they conflict with the operations of a full power television station, the low power stations must change their facilities or terminate operations).
- (5) Operates daytime only or with greatly reduced power at night.
- (6) Pending Acquisition.

- (7) We program this station pursuant to a Sub-TBA with Ashville Radio Partners, LLC.
- (8) An application for renewal of license is pending before the FCC.
- (9) Construction Permit. An application for license is being prepared, which, when granted, will expire on October 1, 2011.

Ownership Matters. The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast licensee without the prior approval of the FCC. In determining whether to grant or renew a broadcast license, the FCC considers a number of factors pertaining to the licensee, including

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compliance with the Communications Act's limitations on alien ownership; compliance with various rules limiting common ownership of broadcast, cable and newspaper properties; and the character and other qualifications of the licensee and those persons holding attributable or cognizable interests therein.

Under the Communications Act, broadcast licenses may not be granted to any corporation having more than one-fifth of its issued and outstanding capital stock owned or voted by aliens (including non-U.S. corporations), foreign governments or their representatives (collectively, Aliens). The Communications Act also prohibits a corporation, without FCC waiver, from holding a broadcast license if that corporation is controlled, directly or indirectly, by another corporation in which more than 25% of the issued and outstanding capital stock is owned or voted by Aliens. The FCC has issued interpretations of existing law under which these restrictions in modified form apply to other forms of business organizations, including partnerships. Since we serve as a holding company for our various radio station subsidiaries, we cannot have more than 25% of our stock owned or voted by Aliens.

The Communications Act and FCC rules also generally prohibit or restrict the common ownership, operation or control of a radio broadcast station and a television broadcast station serving the same geographic market. The FCC's rules permit the ownership of up to two television stations by the same entity if (a) at least eight independently owned and operated full-power commercial and noncommercial TV stations would remain in the Designated Market Area (DMA) in which the communities of license of the TV stations in question are located, and (b) the two merging stations are not both among the top four-ranked stations in the market as measured by audience share. The FCC established criteria for obtaining a waiver of the rules to permit the ownership of two television stations in the same DMA that would not otherwise comply with the FCC's rules. Under certain circumstances, a television station may merge with a failed or failing station or an unbuilt station if strict criteria are satisfied. Additionally, the FCC now permits a party to own up to two television stations (if permitted under the modified TV duopoly rule) and up to six radio stations (if permitted under the local radio ownership rules), or one television station and up to seven radio stations, in any market where at least 20 independently owned media voices remain in the market after the combination is effected (Qualifying Market). The FCC will permit the common ownership of up to two television stations and four radio stations in any market where at least 10 independently owned media voices remain after the combination is effected. The FCC will permit the common ownership of up to two television stations and one radio station notwithstanding the number of voices in the market. The FCC also adopted rules that make television time brokerage agreements or TBAs count as if the brokered station were owned by the brokering station in making a determination of compliance with the FCC's multiple ownership rules. TBAs entered into before November 5, 1996, are grandfathered until the FCC announces the required termination date when it conducts its review of the rules in 2006. As a result of the FCC's rules, we would not be permitted to acquire a television broadcast station (other than low power television) in a non-Qualifying Market in which we now own any television properties. The FCC revised its rules to permit a television station to affiliate with two or more major networks of television broadcast stations under certain conditions. (Major existing networks are still subject to the FCC's dual network ban).

We are permitted to own an unlimited number of radio stations on a nationwide basis (subject to the local ownership restrictions described below). We are permitted to own an unlimited number of television stations on a nationwide basis so long as the ownership of the stations would not result in an aggregate national audience reach (i.e., the total number of television households in the Arbitron Area of Dominant Influence (ADI) markets in which the relevant stations are located divided by the total national television households as measured by ADI data at the time of a grant, transfer or assignment of a license) of 35%. This so-called national television station ownership rule was appealed to the court, and on February 21, 2002, the United States Court of Appeals for the District of Columbia Circuit remanded the rule to the FCC for further consideration and vacated outright a related rule that prohibited a cable television system from carrying the signal of any television station it owned in the same local market. As a result, on July 2, 2003, the FCC released a Report and Order and Notice of Proposed Rulemaking in MB Docket No. 02-277 that

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significantly modified the FCC’s multiple ownership rules. The new multiple ownership rules expand the opportunities for newspaper-broadcast combinations, as follows:

In markets with three or fewer TV stations, no cross-ownership is permitted among TV, radio and newspapers. A company may obtain a waiver of that ban if it can show that the television station does not serve the area served by the cross-owned property (*i.e.* the radio station or the newspaper).

In markets with between 4 and 8 TV stations, combinations are limited to one of the following:

(A) A daily newspaper; one TV station; and up to half of the radio station limit for that market (*i.e.* if the radio limit in the market is 6, the company can only own 3) OR

(B) A daily newspaper; and up to the radio station limit for that market; (*i.e.* no TV stations) OR

(C) Two TV stations (if permissible under local TV ownership rule); up to the radio station limit for that market (*i.e.* no daily newspapers).

In markets with nine or more TV stations, the FCC eliminated the newspaper-broadcast cross-ownership ban and the television-radio cross-ownership ban.

Under the new rules, the number of radio stations one party may own in a local Arbitron-rated radio market is determined by the number of commercial and noncommercial radio stations in the market as determined by Arbitron and BIA Financial, Inc. Radio markets that are not Arbitron rated are determined by analysis of the broadcast coverage contours of the radio stations involved. Numerous parties, including the Company, have sought reconsideration of the new rules. In *Prometheus Radio v. FCC*, Case No. 03-3388, on September 3, 2003, the U.S. Court of Appeals for the Third Circuit granted a stay of the effective date of the FCC’s new rules. On June 24, 2004, the court remanded the case to the FCC for the FCC to justify or modify its approach to setting numerical limits and for the FCC to reconsider or better explain its decision to repeal the failed station solicitation rule, and lifted its stay on the effect of the new radio multiple ownership rules. The new rules could restrict the Company’s ability to acquire additional radio and television stations in some markets and could require the Company to terminate its arrangements with Surtsey Media, LLC. The Court and FCC proceedings are ongoing and we cannot predict what action, if any, the Court may take or what action the FCC may take to further modify its rules. The statements herein are based solely on the FCC’s multiple ownership rules in effect as of the date hereof and do not include any forward-looking statements concerning compliance with any future multiple ownership rules.

Under the Communications Act, we are permitted to own radio stations (without regard to the audience shares of the stations) based upon the number of radio stations in the relevant radio market as follows:

**Number of Stations
in Radio Market**

Number of Stations We Can Own

| | |
|-------------|--|
| 14 or Fewer | Total of 5 stations, not more than 3 in the same service (AM or FM), except the Company cannot own more than 50% of the stations in the market |
| 15-29 | Total of 6 stations, not more than 4 in the same service (AM or FM) |
| 30-44 | Total of 7 stations, not more than 4 in the same service (AM or FM) |
| 45 or More | Total of 8 stations, not more than 5 in the same service (AM or FM) |

The FCC has eliminated its previous scrutiny of some proposed acquisitions and mergers on antitrust grounds and that was manifest in a policy of placing a flag soliciting public comment on concentration of control issues based on advertising revenue shares or other criteria, on the public notice announcing the acceptance of assignment and transfer applications. Notwithstanding this action, we cannot predict whether the FCC will adopt rules that would restrict our ability to acquire additional stations.

New rules to be promulgated under the Communications Act may permit us to own, operate, control or have a cognizable interest in additional radio broadcast stations if the FCC determines that such ownership,

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operation, control or cognizable interest will result in an increase in the number of radio stations in operation. No firm date has been established for initiation of this rule-making proceeding.

In April 2003, the FCC issued a Report and Order resolving a proceeding in which it sought comment on the procedures it should use to license non-reserved broadcast channels (i.e., those FM channels not specifically reserved for noncommercial use) in which both commercial and noncommercial educational (NCE) entities have an interest. The FCC adopted a proposal to allow applicants for NCE stations to submit applications for non-reserved spectrum in a filing window, subject to being returned as unacceptable for filing if there is any mutually exclusive application for a commercial station, and to allow applicants for AM stations and secondary services a prior opportunity to resolve their mutually exclusive applications through settlements. Applicants for NCE stations in the full-power FM and TV services also have an opportunity to reserve channels at the allocation stage of the licensing process for use of those channels; however, this opportunity is not available to commercial applicants such as the Company.

The FCC generally applies its ownership limits to attributable interests held by an individual, corporation, partnership or other association. In the case of corporations holding broadcast licenses, the interests of officers, directors and those who, directly or indirectly, have the right to vote 5% or more of the corporation's stock (or 20% or more of such stock in the case of certain passive investors that are holding stock for investment purposes only) are generally attributable, as are positions of an officer or director of a corporate parent of a broadcast licensee. Currently, three of our officers and directors have an attributable interest or interests in companies applying for or licensed to operate broadcast stations other than us.

In 2001, the FCC revised its ownership attribution rules to (a) apply to limited liability companies and registered limited liability partnerships the same attribution rules that the FCC applies to limited partnerships; and (b) create a new equity/debt plus (EDP) rule that attributes the other media interests of an otherwise passive investor if the investor is (1) a major-market program supplier that supplies over 15% of a station's total weekly broadcast programming hours, or (2) a same-market media entity subject to the FCC's multiple ownership rules (including broadcasters, cable operators and newspapers) so that its interest in a licensee or other media entity in that market will be attributed if that interest, aggregating both debt and equity holdings, exceeds 33% of the total asset value (equity plus debt) of the licensee or media entity. We could be prohibited from acquiring a financial interest in stations in markets where application of the EDP rule would result in us having an attributable interest in the stations. In reconsidering its rules, the FCC also eliminated the single majority shareholder exemption which provides that minority voting shares in a corporation where one shareholder controls a majority of the voting stock are not attributable; however, in December 2001 the FCC suspended the elimination of this exemption until the FCC resolved issues concerning cable television ownership.

In addition to the FCC's multiple ownership rules, the Antitrust Division of the United States Department of Justice and the Federal Trade Commission have the authority to examine proposed transactions for compliance with antitrust statutes and guidelines. The Antitrust Division has become more active recently in reviewing proposed acquisitions. It has issued civil investigative demands and obtained consent decrees requiring the divestiture of stations in a particular market based on antitrust concerns.

Programming and Operation. The Communications Act requires broadcasters to serve the public interest. Licensees are required to present programming that is responsive to community problems, needs and interests and to maintain certain records demonstrating such responsiveness. Complaints from listeners concerning a station's programming often will be considered by the FCC when it evaluates renewal applications of a licensee, although such complaints may be filed at any time and generally may be considered by the FCC at any time. Stations also must follow various rules promulgated under the Communications Act that regulate, among other things, political advertising, sponsorship identification, the advertisement of contests and lotteries, obscene and indecent broadcasts, and technical operations, including limits on radio frequency radiation. The FCC now requires the owners of antenna supporting structures

(towers) to register them with the FCC. As an owner of such towers, we are subject to the registration requirements. The Children's Television Act of 1990 and the FCC's rules promulgated thereunder require television broadcasters to limit the amount of commercial matter which may be aired in children's programming to 10.5 minutes per hour on

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weekends and 12 minutes per hour on weekdays. The Children's Television Act and the FCC's rules also require each television licensee to serve, over the term of its license, the educational and informational needs of children through the licensee's programming (and to present at least three hours per week of core educational programming specifically designed to serve such needs). Licensees are required to publicize the availability of this programming and to file quarterly a report with the FCC on these programs and related matters. Television stations are required to provide closed captioning for certain video programming according to a schedule that gradually increases the amount of video programming that must be provided with captions.

Equal Employment Opportunity Rules. Equal employment opportunity (EEO) rules and policies for broadcasters prohibit discrimination by broadcasters and multichannel video programming distributors. They also require broadcasters to provide notice of job vacancies and to undertake additional outreach measures, such as job fairs and scholarship programs. The rules mandate a three-prong outreach program; i.e., Prong 1: widely disseminate information concerning each full-time (30 hours or more) job vacancy, except for vacancies filled in exigent circumstances; Prong 2: provide notice of each full-time job vacancy to recruitment organizations that have requested such notice; and Prong 3: complete two (for broadcast employment units with five to ten full-time employees or that are located in smaller markets) or four (for employment units with more than ten full-time employees located in larger markets) longer-term recruitment initiatives within a two-year period. These include, for example, job fairs, scholarship and internship programs, and other community events designed to inform the public as to employment opportunities in broadcasting. The rules mandate extensive record keeping and reporting requirements. The EEO rules will be enforced through review at renewal time, at mid-term for larger broadcasters, and through random audits and targeted investigations resulting from information received as to possible violations. The FCC has not yet decided on whether and how to apply the EEO rule to part-time positions.

Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short (less than the full eight-year) renewal terms or, for particularly egregious violations, the denial of a license renewal application or the revocation of a license.

Time Brokerage Agreements. As is common in the industry, we have entered into what have commonly been referred to as Time Brokerage Agreements, or TBAs. While these agreements may take varying forms, under a typical TBA, separately owned and licensed radio or television stations agree to enter into cooperative arrangements of varying sorts, subject to compliance with the requirements of antitrust laws and with the FCC's rules and policies. Under these types of arrangements, separately-owned stations agree to function cooperatively in terms of programming, advertising sales, and other matters, subject to the licensee of each station maintaining independent control over the programming and station operations of its own station. One typical type of TBA is a programming agreement between two separately-owned radio or television stations serving a common service area, whereby the licensee of one station purchases substantial portions of the broadcast day on the other licensee's station, subject to ultimate editorial and other controls being exercised by the latter licensee, and sells advertising time during such program segments. Such arrangements are an extension of the concept of time brokerage agreements, under which a licensee of a station sells blocks of time on its station to an entity or entities which purchase the blocks of time and which sell their own commercial advertising announcements during the time periods in question.

The FCC's rules provide that a station purchasing (brokering) time on another station serving the same market will be considered to have an attributable ownership interest in the brokered station for purposes of the FCC's multiple ownership rules. As a result, under the rules, a broadcast station will not be permitted to enter into a time brokerage agreement giving it the right to purchase more than 15% of the broadcast time, on a weekly basis, of another local station that it could not own under the local ownership rules of the FCC's multiple ownership rules. The FCC's rules also prohibit a broadcast licensee from simulcasting more than 25% of its programming on another station in the same broadcast service (i.e., AM-AM or FM-FM) whether it owns the stations or through a TBA arrangement, where the brokered and brokering stations serve substantially the same geographic area.

The FCC's new multiple ownership rules count stations brokered under a joint sales agreement (JSA) toward the brokering station's permissible ownership totals , as long as (1) the brokering entity owns or has an

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attributable interest in one or more stations in the local market, and (2) the joint advertising sales amount to more than 15% of the brokered station's advertising time per week. In a Notice of Proposed Rulemaking in MB Docket No. 04-256, released August 2, 2004, the FCC sought comment from the public on whether television JSAs should also be attributable to the brokering station. The next ownership review will commence in 2006. Since the FCC did not undertake an ownership review in 2004, the FCC invited comment as to whether it should nonetheless commence the reevaluation of grandfathered television LMAs in 2004 or postpone it until the next quadrennial ownership review in 2006. The FCC has not yet released a decision in the proceeding. The FCC adopted rules that permit, under certain circumstances, the ownership of two or more television stations in a Qualifying Market and requires the termination of certain non-complying existing television TBAs. We currently have a television TBA in the Victoria, Texas market with Surtsey. Even though the Victoria market is not a Qualifying Market such that the duopoly would otherwise be permissible, as discussed above, we believe that the TBA is grandfathered under the FCC's rules and need not be terminated earlier than 2006. See *Ownership Matters* above.

On March 7, 2003 we entered into an agreement of understanding with Surtsey, whereby we have guaranteed up to \$1,250,000 of the debt incurred by Surtsey in closing on the acquisition of a construction permit for KFJX-TV station in Pittsburg, Kansas. In consideration for our guarantee, Surtsey has entered into various agreements with us relating to the station, including a Shared Services Agreement, Technical Services Agreement, Agreement for the Sale of Commercial Time, Option Agreement and Broker Agreement (not a TBA). Under the FCC's ownership rules, we are prohibited from owning or having an attributable or cognizable interest in this station. As noted above, if the FCC decides to attribute television JSAs, we would be required to terminate the Agreement for the Sale of Commercial Time.

Other FCC Requirements

The V-Chip. The FCC adopted methodology that will be used to send program ratings information to consumer TV receivers (implementation of V-Chip legislation contained in the Communications Act). The FCC also adopted the TV Parental Guidelines, developed by the Industry Ratings Implementation Group, which apply to all broadcast television programming except for news and sports. As a part of the legislation, television station licensees are required to attach as an exhibit to their applications for license renewal a summary of written comments and suggestions received from the public and maintained by the licensee that comment on the licensee's programming characterized as violent.

Digital Television. The FCC's rules provide for the conversion by all U.S. television broadcasters to digital television (DTV), including build-out construction schedules, NTSC (current analog system) and DTV channel simulcasting, and the return of NTSC channels to the government. The FCC has attempted to provide DTV coverage areas that are comparable to the NTSC service areas. DTV licensees may use their DTV channels for a multiplicity of services such as high-definition television broadcasts, multiple standard definition television broadcasts, data, audio, and other services so long as the licensee provides at least one free video channel equal in quality to the current NTSC technical standard. Our television stations have begun providing low power DTV service on channels separate from their NTSC channels. Our television stations are required to cease broadcasting on the NTSC channels by February 17, 2009, and return the NTSC channels to the government to be auctioned. On August 4, 2004, the FCC adopted a Report and Order (Order) that implements several steps necessary for the conversion to DTV. This Order commenced a process for electing the channels on which DTV stations will operate in the future. The company's television stations have timely filed with the FCC forms electing their preferred DTV channels. The Order established July 1, 2005 as the date on which station licensees affiliated with the top-four networks in the top 100 markets that receive a tentative digital channel designation in the channel election process on their current digital channel must construct full, authorized facilities. The Order established July 1, 2006, as the date on which all other commercial station licensees as well as noncommercial licensees that receive a tentative digital channel designation in the channel election process on their current digital channel must construct full, authorized DTV facilities. Such licensees must serve at least 80% of their analog population coverage. The company's television stations, therefore, must, by July 1, 2006, construct full,

authorized DTV facilities or lose interference protection to the un-served areas. The Order also required broadcasters to include Program and

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System Information Protocol (PSIP) information in their digital broadcast signals. The Order eliminated, for now, the requirement that analog and digital programs be simulcast for part of the time; clarified the digital closed captioning rules and mandated that, after an 18-month transition period, all digital television receivers contain v-chip functionality that will permit the current TV ratings system to be modified.

The Deficit Reduction Act of 2005 has established February 17, 2009, as the date on which analog spectrum must be returned to the government to be auctioned. Under the Act, the FCC is authorized to extend the February 17, 2009, deadline if (1) one or more television stations affiliated with ABC, CBS, NBC, or Fox in a market are not broadcasting in DTV and the FCC determines that such stations have exercised due diligence in attempting to convert to DTV; or (2) less than 85% of the television households in the station's market subscribe to a multichannel video service that carries at least one DTV channel from each of the local stations in that market and less than 85% of the television households in the market can receive DTV signals off the air using either set-top converters for NTSC broadcasts or a new DTV set. (The Deficit Reduction Act of 2005 creates a program through which households in the United States may obtain coupons that can be applied toward the purchase of digital-to-analog converter boxes.) At present KOAM-TV is providing NTSC service on Channel 7 and DTV service on Channel 13. KAVU-TV is providing NTSC service on Channel 25 and DTV service on Channel 15. WXVT is providing NTSC operations on Channel 15 and DTV service on Channel 17. Brokered Station KVCT is providing NTSC service on Channel 19 and DTV service on Channel 11. KOAM-TV elected to use Channel 7 for DTV operations. KAVU-TV elected to use Channel 15. WXVT elected to use Channel 15. KVCT elected to use Channel 19. On January 22, 2001, the FCC adopted rules on how the law requiring the carriage of television signals on local cable television systems should apply to DTV signals. The FCC decided that a DTV-only station could immediately assert its right to carriage on a local cable television system; however, the FCC decided that a television station may not assert a right to carriage of both its NTSC and DTV channels. On February 10, 2005, the FCC affirmed its conclusion. In October 2003, the FCC adopted rules requiring plug and play cable compatibility that will allow consumers to plug their cable directly into their digital TV set without the need for a set-top box. The FCC has adopted rules whereby television licensees are charged a fee of 5% of gross revenue derived from the offering of ancillary or supplementary services on DTV spectrum for which a subscription fee is charged. Licensees of DTV stations must file with the FCC a report by December 1 of each year describing such services. None of the Company's stations to date are offering ancillary or supplementary services on their DTV channels.

Low Power and Class A Television Stations. Currently, the service areas of low power television (LPTV) stations are not protected. LPTV stations can be required to terminate their operations if they cause interference to full power stations. LPTV stations meeting certain criteria were permitted to certify to the FCC their eligibility to be reclassified as Class A Television Stations whose signal contours would be protected against interference from other stations. Stations deemed Class A Stations by the FCC would thus be protected from interference. We own four operating LPTV stations, KUNU-LP, KVTX-LP, KXTS-LP, and KMOL-LP, Victoria, Texas. None of the stations qualifies under the FCC's established criteria for Class A Status. In January 2006, the FCC announced a filing window from May 1 through May 12, 2006, during which analog LPTV stations may apply for a digital companion channel or implement DTV operation on their existing analog channels.

The Cable Television Consumer Protection and Competition Act of 1992, among other matters, requires cable television system operators to carry the signals of local commercial and non-commercial television stations and certain low power television stations. Cable television operators and other multi-channel video programming distributors may not carry broadcast signals without, in certain circumstances, obtaining the transmitting station's consent. A local television broadcaster must make a choice every three years whether to proceed under the must-carry rules or waive the right to mandatory-uncompensated coverage and negotiate a grant of retransmission consent in exchange for consideration from the cable system operator. As noted above, such must-carry rights will extend to the new DTV signal to be broadcast by our stations, but will not extend simultaneously to the analog signal.

Low Power FM Radio. The FCC has created a new low power radio service (LPFM). The FCC authorizes the construction and operation of two new classes of noncommercial educational FM stations, LP100 (up to 100 watts effective radiated power (ERP) with antenna height above average terrain (HAAT)

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at up to 30 meters (100 feet) which is calculated to produce a service area radius of approximately 3.5 miles, and LP10 (up to 10 watts ERP and up to 30 meters HAAT) with a service area radius of approximately 1 to 2 miles. The FCC will not permit any broadcaster or other media entity subject to the FCC's ownership rules to control or hold an attributable interest in an LPFM station or enter into related operating agreements with an LPFM licensee. Thus, absent a waiver, we could not own or program an LPFM station. LPFM stations are allocated throughout the FM broadcast band, i.e., 88 to 108 MHz, although they must operate with a noncommercial format. The FCC has established allocation rules that require FM stations to be separated by specified distances to other stations on the same frequency, and stations on frequencies on the first, second and third channels adjacent to the center frequency. The FCC has begun granting construction permits and licenses for LPFM stations. In 2005, the FCC released a *Second Report and Order on Reconsideration and Further Notice of Proposed Rulemaking* which may modify the existing LPFM rules and could, among other things, permit an LPFM station to continue to operate even when interference is predicted to occur within the 70 dBu contour of some second- or third-adjacent channel full service stations. These proposals could result in reduced coverage for some of our FM stations. The Company has filed comments opposing these proposals. We cannot predict what, if any, other possibly adverse effect future LPFM stations may have on our FM stations.

Digital Audio Radio Satellite Service and Internet Radio. The FCC has adopted rules for the Digital Audio Radio Satellite Service (DARS) in the 2310-2360 MHz frequency band. In adopting the rules, the FCC stated, although healthy satellite DARS systems are likely to have some adverse impact on terrestrial radio audience size, revenues and profits, the record does not demonstrate that licensing satellite DARS would have such a strong adverse impact that it threatens the provision of local service. The FCC has granted two nationwide licenses, one to XM Satellite Radio, which began broadcasting in May 2001, and a second to Sirius Satellite Radio, which began broadcasting in February 2002. The satellite radio systems provide multiple channels of audio programming in exchange for the payment of a subscription fee. We cannot predict whether, or the extent to which, DARS will have an adverse impact on our business. In February 2005, Motorola, introduced a new iRadio receiver that will permit the reception of audio programming streamed over the internet in automobiles on portable receivers. We cannot predict whether, or the extent to which, such reception devices will have an adverse impact on our business.

Satellite Carriage of Local TV Stations. The Satellite Home Viewer Improvement Act (SHVIA), a copyright law, prevents direct-to-home satellite television carriers from retransmitting broadcast network television signals to consumers unless those consumers (1) are unserved by the over-the-air signals of their local network affiliate stations, and (2) have not received cable service in the preceding 90 days. According to the SHVIA, unserved means that a consumer cannot receive, using a conventional outdoor rooftop antenna, a television signal that is strong enough to provide an adequate television picture. In December 2001 the U.S. Court of Appeals for the District of Columbia upheld the FCC's rules for satellite carriage of local television stations which require satellite carriers to carry upon request all local TV broadcast stations in local markets in which the satellite carriers carry at least one TV broadcast station, also known as the carry one, carry all rule. In December 2004, Congress passed and the President signed the Satellite Home Viewer Extension and Reauthorization Act of 2004 (SHVERA), which again amends the copyright laws and the Communications Act. The SHVIA governs the manner in which satellite carriers offer local broadcast programming to subscribers, but the SHVIA copyright license for satellite carriers was more limited than the statutory copyright license for cable operators. Specifically, for satellite purposes, local, though out-of-market (i.e., significantly viewed) signals were treated the same as truly distant (e.g., hundreds of miles away) signals for purposes of the SHVIA's statutory copyright licenses. The SHVERA is intended to address this inconsistency by giving satellite carriers the option to offer Commission-determined significantly viewed signals to subscribers. In November, 2005, the FCC adopted a *Report and Order* to implement SHVERA to enable satellite carriers to offer FCC-determined significantly viewed signals of out-of-market broadcast stations to subscribers subject to certain constraints set forth in SHVERA. The *Order* includes an updated list of stations currently deemed significantly viewed.

In-Band On-Channel Hybrid Digital Radio. On April 15, 2004, the FCC released a Notice of Proposed Rulemaking (NPRM) seeking comment on what rule changes and amendments are necessary due to the advent of digital audio broadcasting (DAB). The FCC also adopted a companion *Notice of Inquiry*

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(*NOI*) addressing other matters relevant to the discussion on DAB. On October 11, 2002, the FCC selected in-band, on-channel (IBOC) as the technology that will allow AM (daytime operations only) and FM stations on a voluntary basis to begin interim digital transmissions immediately using the IBOC systems developed by iBiquity Digital Corporation. This technology has become commonly known as hybrid digital or HD radio. During the interim IBOC operations, stations will broadcast the same main channel program material in both analog and digital modes. IBOC technology permits hybrid operations, the simultaneous transmission of analog and digital signals with a single AM and FM channel. IBOC technology provides near CD-quality sound on FM channels and FM quality on AM channels. Hybrid IBOC operations will have minimal impact on the present broadcast service. We cannot predict what rules the FCC will ultimately adopt as a result of the NPRM and NOI. At the present time, we are broadcasting in HD radio on WMGX(FM), WBAE(AM) and WVAE(AM) in the Portland, Maine, market; WLRW(FM) in the Champaign, Illinois, market; and WJYI(AM) in the Milwaukee, Wisconsin, market. The Company is planning to begin broadcasting in HD radio on at least seven additional stations in the coming year.

Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Federal Trade Commission and the Department of Justice, the federal agencies responsible for enforcing the federal antitrust laws, may investigate certain acquisitions. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, an acquisition meeting certain size thresholds requires the parties to file Notification and Report Forms with the Federal Trade Commission and the Department of Justice and to observe specified waiting period requirements before consummating the acquisition. Any decision by the Federal Trade Commission or the Department of Justice to challenge a proposed acquisition could affect our ability to consummate the acquisition or to consummate it on the proposed terms.

Proposed Changes. The FCC has under consideration, and may in the future consider and adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect us and the operation and ownership of our broadcast properties. Application processing rules adopted by the FCC might require us to apply for facilities modifications to our standard broadcast stations in future window periods for filing applications or result in the stations being locked in with their present facilities. The Balanced Budget Act of 1997 authorizes the FCC to use auctions for the allocation of radio broadcast spectrum frequencies for commercial use. The implementation of this law could require us to bid for the use of certain frequencies.

The FCC on January 13, 1999 released a study and conducted a forum on the impact of advertising practices on minority-owned and minority-formatted broadcast stations. The study provided evidence that advertisers often exclude radio stations serving minority audiences from ad placements and pay them less than other stations when they are included. On February 22, 1999, a summit was held at the FCC's headquarters to continue this initiative where participants considered the advertising study's recommendations to adopt a Code of Conduct to oppose unfair ad placement and payment, to encourage diversity in hiring and training and to enforce laws against unfair business practices. We cannot predict at this time whether the FCC will adopt new rules that would require the placement of part of an advertiser's budget on minority-owned and minority-formatted broadcast stations, and if so, whether such rules would have an adverse impact on us.

Congress, the courts and the FCC have recently taken actions that may lead to the provision of video services by telephone companies. The 1996 Telecommunications Act has lifted previous restrictions on a local telephone company providing video programming directly to customers within the telephone company's service areas. The law now permits a telephone company to distribute video services either under the rules applicable to cable television systems or as operators of so-called wireless cable systems as common carriers or under new FCC rules regulating open video systems subject to common carrier regulations. We cannot predict what effect these services may have on us. Likewise, we cannot predict what other changes might be considered in the future, nor can we judge in advance what impact, if any, such changes might have on our business.

Table of Contents**Executive Officers**

Our current executive officers are:

| Name | Age | Position |
|-----------------------|------------|--|
| Edward K. Christian | 61 | President, Chief Executive Officer and Chairman; Director |
| Steven J. Goldstein | 49 | Executive Vice President and Group Program Director |
| Warren Lada | 51 | Senior Vice President, Operations |
| Samuel D. Bush | 48 | Senior Vice President, Chief Financial Officer and Treasurer |
| Marcia K. Lobaito | 57 | Senior Vice President, Corporate Secretary, and Director of Business Affairs |
| Catherine A. Bobinski | 46 | Vice President, Chief Accounting Officer and Corporate Controller |

Officers are elected annually by our Board of Directors and serve at the discretion of the Board. Set forth below is information with respect to our executive officers.

Mr. Christian has been President, Chief Executive Officer and Chairman since our inception in 1986.

Mr. Goldstein has been Executive Vice President and Group Program Director since 1988. Mr. Goldstein has been employed by us since our inception in 1986.

Mr. Lada has been Senior Vice President, Operations since 2000. He was Vice President, Operations from 1997 to 2000. From 1992 to 1997 he was Regional Vice President of our subsidiary, Saga Communications of New England, Inc.

Mr. Bush has been Senior Vice President since 2002, Chief Financial Officer and Treasurer since September 1997. He was Vice President from 1997 to 2002. From 1988 to 1997 he held various positions with the Media Finance Group at AT&T Capital Corporation, most recently as Senior Vice President.

Ms. Lobaito has been Senior Vice President since 2005, Director of Business Affairs and Corporate Secretary since our inception in 1986 and Vice President from 1996 to 2005.

Ms. Bobinski has been Vice President since March 1999 and Chief Accounting Officer and Corporate Controller since September 1991. Ms. Bobinski is a certified public accountant.

Item 1A. Risk Factors

The more prominent risks and uncertainties inherent in our business are described in more detail below. However, these are not the only risks and uncertainties we face. Our business may face additional risks and uncertainties that are unknown to us at this time.

We Have Substantial Indebtedness and Debt Service Requirements

At December 31, 2005 our long-term debt (including the current portion thereof and our guarantee of debt of Surtsey Productions) was approximately \$148,911,000. We have borrowed and expect to continue to borrow to finance acquisitions and for other corporate purposes. Because of our substantial indebtedness, a significant portion of our cash flow from operations is required for debt service. Our leverage could make us vulnerable to an increase in interest rates or a downturn in our operating performance or a decline in general economic conditions. Under the terms of our Credit Agreement, on March 31, 2006, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly, in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2006. We believe that cash flow from operations will be sufficient to meet our debt service requirements for interest and scheduled quarterly payments of principal under the Credit Agreement. However, if such cash flow is not sufficient, we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our

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properties in order to make such scheduled payments. We cannot be sure that we would be able to effect any such transactions on favorable terms, if at all.

Our Debt Covenants Restrict our Financial and Operational Flexibility

Our Credit Agreement contains a number of financial covenants which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investment, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances. Our ability to meet these financial ratios can be affected by operating performance or other events beyond our control, and we cannot assure you that we will meet those ratios. Certain events of default under our Credit Agreement could allow the lenders to declare all amounts outstanding to be immediately due and payable and, therefore, could have a material adverse effect on our business. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries' stock and by a guarantee of our subsidiaries. If the amounts outstanding under the Credit Agreement were accelerated, the lenders could proceed against such available collateral.

We Depend on Key Personnel

Our business is partially dependent upon the performance of certain key individuals, particularly Edward K. Christian, our President and CEO. Although we have entered into long-term employment and non-competition agreements with Mr. Christian and certain other key personnel, we cannot be sure that such key personnel will remain with us. We do not maintain key man life insurance on Mr. Christian's life.

We Depend on Key Stations

Historically our top five markets when combined represented 43%, 47% and 50% of our net operating revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

Local and National Economic Conditions May Affect our Advertising Revenue

Our financial results are dependent primarily on our ability to generate advertising revenue through rates charged to advertisers. The advertising rates a station is able to charge is affected by many factors, including the general strength of the local and national economies. Generally, advertising declines during periods of economic recession or downturns in the economy. As a result, our revenue is likely to be adversely affected during such periods, whether they occur on a national level or in the geographic markets in which we operate. During such periods we may also be required to reduce our advertising rates in order to attract available advertisers. Such a decline in advertising rates could also have a material adverse effect on our revenue, results of operations and financial condition.

Our Stations Must Compete for Advertising Revenues in Their Respective Markets

Both radio and television broadcasting are highly competitive businesses. Our stations compete for listeners/viewers and advertising revenues within their respective markets directly with other radio and/or television stations, as well as with other media, such as broadcast television and/or broadcast radio (as applicable), cable television and/or cable radio, satellite television and/or satellite radio systems, newspapers, magazines, direct mail, the internet, coupons and billboard advertising. Audience ratings and market shares are subject to change, and any change in a particular market could have a material adverse effect on the revenue of our stations located in that market. While we already compete in some of our markets with other stations with similar programming formats, if another radio station in a market were to convert its programming format to a format similar to one of our stations, if a new station were to adopt a comparable format or if an existing competitor were to strengthen its operations, our stations could experience a reduction in ratings and/or advertising revenue and could incur increased promotional and other expenses. Other radio

or television broadcasting companies may enter into the markets in which we operate or may operate in the future. These companies may be larger and have more financial resources than we have. We cannot assure you that any of our stations will be able to maintain or increase their current audience ratings and advertising revenues.

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Our Success Depends on our Ability to Identify, Consummate and Integrate Acquired Stations

As part of our strategy, we have pursued and intend to continue to pursue acquisitions of additional radio and television stations. Broadcasting is a rapidly consolidating industry, with many companies seeking to consummate acquisitions and increase their market share. In this environment, we compete and will continue to compete with many other buyers for the acquisition of radio and television stations. Some of those competitors may be able to outbid us for acquisitions because they have greater financial resources. As a result of these and other factors, our ability to identify and consummate future acquisitions is uncertain.

Our consummation of all future acquisitions is subject to various conditions, including FCC and other regulatory approvals. The FCC must approve any transfer of control or assignment of broadcast licenses. In addition, acquisitions may encounter intense scrutiny under federal and state antitrust laws. Our future acquisitions may be subject to notification under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and to a waiting period and possible review by the Department of Justice and the Federal Trade Commission. Any delays, injunctions, conditions or modifications by any of these federal agencies could have a negative effect on us and result in the abandonment of all or part of attractive acquisition opportunities. We cannot predict whether we will be successful in identifying future acquisition opportunities or what the consequences will be of any acquisitions.

The success of any completed acquisition will depend on our ability to effectively integrate the acquired stations. The process of integrating acquired stations may involve numerous risks, including difficulties in the assimilation of operations, the diversion of management's attention from other business concerns, risk of entering new markets, and the potential loss of key employees of the acquired stations.

Our Business is Subject to Extensive Federal Regulation

The broadcasting industry is subject to extensive federal regulation which, among other things, requires approval by the FCC of transfers, assignments and renewals of broadcasting licenses, limits the number of broadcasting properties that may be acquired within a specific market, and regulates programming and operations. For a detail description of the material regulations applicable to our business, see *Federal Regulation of Radio and Television Broadcasting* and *Other FCC Requirements* in Item 1 of this Form 10-K. Failure to comply with these regulations could, under certain circumstances and among other things, result in the denial or revocation of FCC licenses, shortened license renewal terms, monetary fines or other penalties which would adversely affect our profitability. Changes in ownership requirements could limit our ability to own or acquire stations in certain markets.

New Technologies May Affect our Broadcasting Operations

The FCC has and is considering ways to introduce new technologies to the broadcasting industry, including satellite and terrestrial delivery of digital audio broadcasting and the standardization of available technologies which significantly enhance the sound quality of AM broadcasters. We are unable to predict the effect such technologies may have on our broadcasting operations. The capital expenditures necessary to implement such technologies could be substantial. We also face risks in implementing the conversion of our television stations to digital television as required by the FCC. We have and will continue to incur considerable expense in the conversion to digital television and are unable to predict the extent or timing of consumer demand for any such digital television services. Moreover, the FCC may impose additional public service obligations on television broadcasters in return for their use of the digital television spectrum. This could add to our operational costs. One issue yet to be resolved is the extent to which cable systems will be required to carry broadcasters' new digital channels. Our television stations are highly dependent on their carriage by cable systems in the areas they serve. FCC rules that impose no or limited obligations on cable systems to carry the digital television signals of television broadcast stations in their local markets could adversely affect our television operations.

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The Company is Controlled by our President, Chief Executive Officer and Chairman

As of February 28, 2006, Edward K. Christian, our President, Chief Executive Officer and Chairman, holds approximately 57% of the combined voting power of our Common Stock. As a result, Mr. Christian generally is able to control the vote on most matters submitted to the vote of stockholders and, therefore, is able to direct our management and policies, except with respect to (i) the election of the two Class A directors, (ii) those matters where the shares of our Class B Common Stock are only entitled to one vote per share, and (iii) and other matters requiring a class vote under the provisions of our certificate of incorporation, bylaws or applicable law. For a description of the voting rights of our Common Stock, see Note 12 of the Notes to Consolidated Financial Statements included with this Form 10-K. Without the approval of Mr. Christian, we will be unable to consummate transactions involving an actual or potential change of control, including transactions in which stockholders might otherwise receive a premium for your shares over then-current market prices.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters is located in Grosse Pointe Farms, Michigan. The types of properties required to support each of our stations include offices, studios, transmitter sites and antenna sites. A station's studios are generally housed with its offices in business districts. The transmitter sites and antenna sites are generally located so as to provide maximum market coverage for our stations broadcast signals.

As of December 31, 2005 the studios and offices of 26 of our 31 operating locations, including our corporate headquarters in Michigan, are located in facilities we own. The remaining studios and offices are located in leased facilities with lease terms that expire in 1 to 6 years. We own or lease our transmitter and antenna sites, with lease terms that expire in 3 months to 85 years. We do not anticipate any difficulties in renewing those leases that expire within the next five years or in leasing other space, if required.

No one property is material to our overall operations. We believe that our properties are in good condition and suitable for our operations.

We own substantially all of the equipment used in our broadcasting business.

Our bank indebtedness is secured by a first priority lien on all of our assets and those of our subsidiaries.

Item 3. *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 4. *Submission of Matters to a Vote of Security Holders*

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Until January 20, 2004, our Class A Common Stock traded on the American Stock Exchange. Thereafter, our Class A Common Stock began trading on the New York Stock Exchange. There is no public trading

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market for our Class B Common Stock. The following table sets forth the high and low sales prices of the Class A Common Stock as reported by the New York Stock Exchange for the calendar quarters indicated:

| Year | High | Low |
|----------------|-------------|------------|
| 2004: | | |
| First Quarter | \$ 20.73 | \$ 17.75 |
| Second Quarter | \$ 20.35 | \$ 18.10 |
| Third Quarter | \$ 18.40 | \$ 16.50 |
| Fourth Quarter | \$ 18.50 | \$ 16.10 |
| 2005: | | |
| First Quarter | \$ 17.10 | \$ 15.50 |
| Second Quarter | \$ 16.74 | \$ 13.43 |
| Third Quarter | \$ 15.50 | \$ 12.68 |
| Fourth Quarter | \$ 14.00 | \$ 10.30 |

As of February 28, 2006, there were approximately 134 holders of record of our Class A Common Stock, and one holder of our Class B Common Stock.

We have not paid any cash dividends on our Common Stock during the three most recent fiscal years. We are prohibited by the terms of our bank loan agreement from paying dividends on our Common Stock without the banks prior consent. See Item 7. Management's Discussion and Analysis of Financial Position and Results of Operations, Liquidity and Capital Resources and Note 4 of the Notes to Consolidated Financial Statements.

Securities Authorized for Issuance Under Equity Compensation Plan Information

The following table sets forth as of December 31, 2005, the number of securities outstanding under our equity compensation plans, the weighted average exercise price of such securities and the number of securities available for grant under these plans:

| Plan Category | (a) Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights | (b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | (c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Column (a)) |
|--|---|--|--|
| Equity Compensation Plans Approved by Stockholders: | | | |
| Employee Stock Purchase Plan | | \$ | 1,437,884 |
| 1992 Stock Option Plan | 1,583,890 | \$ 13.205 | |
| 2003 Stock Option Plan | 216,274 | \$ 19.243 | |
| 2005 Incentive Compensation Plan | 328,514(1) | \$ 14.253(2) | 2,171,486 |

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| | | | | |
|--|-----------|----|------|-----------|
| 1997 Non-Employee Director Stock Option Plan | 12,193 | \$ | .008 | 163,917 |
| Equity Compensation Plans Not Approved by Stockholders: | | | | |
| None | | | | |
| Total | 2,140,871 | | | 3,773,287 |

(1) Includes 59,728 shares of restricted stock;

(2) Weighted-Average Exercise Price of Outstanding Options.

Table of Contents**Recent Sales of Unregistered Securities**

On June 1, 2005, we issued a total of 188,123 shares of our Class A Common Stock to Manley H. Thaler, Trustee. In connection with our acquisition of two FM and two AM radio stations (WQNY-FM, WYXL-FM, WNYX-AM and WHCU-AM) serving the Ithaca, New York market for a total aggregate cash and stock consideration of approximately \$13,610,000.

Effective January 1, 2005, we issued 116,686 shares of our Class A Common Stock to Eure Communications, Inc. in connection with our acquisition of an AM (WINA-AM) and two FM (WWWV-FM and WQMZ-FM) radio stations serving the Charlottesville, Virginia market for total aggregate cash and stock consideration of approximately \$22,490,000.

On October 1, 2003, we issued 55,740 shares of our Class A Common Stock to Skyway Broadcasting Company, Inc., EXL Management, Ltd., and Scantland Broadcasting, Ltd., in connection with our acquisition of two FM radio stations (WJZA-FM Lancaster, Ohio and WJZK-FM Richwood, Ohio) serving the Columbus, Ohio market for total aggregate cash and stock consideration of approximately \$13,242,000, plus up to an additional \$2,000,000 upon the occurrence of certain events.

We relied upon Section 4(2) of the Securities Act of 1933 in connection with the issuance of these securities.

Issuer Purchases of Equity Securities

There were no repurchases by the issuer during the fourth quarter 2005.

Item 6. Selected Financial Data

| | Years Ended December 31, | | | | |
|---|--|----------------------|----------------------|----------------------|----------------------|
| | 2005(1)(2)(3) | 2004(1)(2)(4) | 2003(1)(2)(5) | 2002(1)(2)(6) | 2001(1)(2)(7) |
| | (In thousands except per share amounts) | | | | |
| OPERATING DATA: | | | | | |
| Net Operating Revenue | \$ 140,790 | \$ 134,644 | \$ 121,297 | \$ 114,782 | \$ 103,956 |
| Station Operating Expense | 104,411 | 94,914 | 86,083 | 79,682 | 76,202 |
| Corporate General and Administrative | 8,174 | 8,343 | 6,649 | 6,223 | 5,969 |
| Impairment of intangible assets | 1,168 | | | | |
| Operating Income | 27,037 | 31,387 | 28,565 | 28,877 | 21,785 |
| Interest Expense | 7,586 | 4,522 | 4,779 | 5,487 | 7,037 |
| Net Income | \$ 10,566 | \$ 15,842 | \$ 13,884 | \$ 13,955 | \$ 8,565 |
| Basic Earnings Per Share | \$.52 | \$.76 | \$.67 | \$.68 | \$.42 |
| Cash Dividends Declared Per Common Share | | | | | |
| Weighted Average Common Shares | 20,482 | 20,752 | 20,817 | 20,631 | 20,473 |
| Diluted Earnings Per Share | \$.51 | \$.75 | \$.65 | \$.66 | \$.41 |
| Weighted Average Common Shares and Common Equivalents | 20,675 | 21,167 | 21,301 | 21,209 | 20,888 |

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| | 2005(1)(2)(3) | 2004(1)(2)(4) | December 31, 2003(1)(2)(5) | 2002(1)(2)(6) | 2001(1)(2)(7) |
|--|-----------------------|----------------------|---------------------------------------|----------------------|----------------------|
| | (In thousands) | | | | |
| BALANCE SHEET DATA: | | | | | |
| Working Capital | \$ 22,618 | \$ 21,778 | \$ 25,353 | \$ 5,517 | \$ 24,083 |
| Net Property and Equipment | 69,669 | 66,364 | 62,369 | 60,161 | 55,169 |
| Net Intangible and Other Assets | 205,434 | 176,166 | 161,112 | 134,713 | 112,033 |
| Total Assets | 318,865 | 280,154 | 262,343 | 226,322 | 202,721 |
| Long-term Debt Including Current Portion | 148,911 | 121,161 | 121,205 | 105,228 | 105,501 |
| Stockholders Equity | 125,824 | 117,225 | 107,244 | 93,059 | 75,062 |

- (1) All periods presented include the weighted average shares and common equivalents related to certain stock options. In June 2002, we consummated a five-for-four split of our Class A and Class B Common Stock. All share and per share information has been restated to reflect the retroactive equivalent changes in the weighted average shares.
- (2) Reflects the adoption of SFAS No. 142 Accounting for Goodwill and Other Intangible Assets on January 1, 2002, which resulted in our goodwill and broadcast licenses no longer being amortized for the years ended December 31, 2005, 2004, 2003 and 2002. Proforma net income, basic and diluted earnings per share for the year ended December 31, 2001 for the adoption of SFAS 142, was \$10,580; \$.52; and \$.51, respectively.
- (3) Reflects the results of WINA, WWVW, WQMZ, WISE and KXTS-LP acquired in January 2005; WQNY, WYXL, WNYW and WHCU acquired in June 2005; and WVAX acquired in November 2005.
- (4) Reflects the results of Minnesota News Network and Minnesota Farm Network, acquired in March 2004; WRSI, WPVQ and WRSY acquired in April 2004; WXTT acquired in July 2004; and the disposition of WJQY in August 2004.
- (5) Reflects the results of WOXL-AM, acquired in March 2003; WODB, acquired in March 2003 and the results of a time brokerage agreement (TBA) for WODB which began in January 2003; the disposition of WVKO in May 2003 and the results of the buyer brokering time on WVKO under a TBA which began in January 2003; WINQ acquired in April 2003, and the results of a TBA for WINQ, which began in February 2003; the disposition of WLLM in April 2003; WJZA and WJZK acquired in October 2003; the results of a Shared Services Agreement, Technical Services Agreement, Agreement for the Sale of Commercial Time, Option Agreement and Broker Agreement for KFJX, which began in October 2003; WVAE acquired in November 2003 and the results of a TBA for WVAE which began in August 2003; and WQEL and WBCO acquired in December 2003 and the results of a TBA for WQEL and WBCO which began in October 2003.
- (6) Reflects the results of WKNE, WKBK and WKVT AM/FM, acquired in May 2002; WOQL and WZBK, acquired in July 2002; KDEZ, KDEX, KJBX, WEGI and WJQY, acquired in November 2002 and the results of a TBA for WOXL-FM and WISE, which began in November 2002.
- (7) Reflects the results of WCVQ, WVVR, WZZP, WKFN and WJQI, acquired in February 2001; WHAI and WHMQ, acquired in April 2001; and KMIT and KUQL, acquired in July 2001.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Item 1. Business, Item 6. Selected Financial Data and the consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are therefore reflected only in our discussion of consolidated results.

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

General

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

For additional information with respect to acquisitions, see [Liquidity and Capital Resources](#) below.

Radio Segment

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

Most advertising contracts are short-term, and generally run only for a few weeks to a few months. Most of our revenue is generated from local advertising, which is sold primarily by each radio markets sales staff. For the years ended December 31, 2005, 2004 and 2003, approximately 85%, 84% and 81%, respectively, of our gross radio segment revenue was from local advertising. To generate national advertising sales, we engage an independent national advertising sales representative firm that specializes in national sales for each of our broadcast markets.

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

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

Our financial results are dependent on a number of factors, the most significant of which is our ability to generate advertising revenue through rates charged to advertisers. The rates a station is able to charge are, in large part, based on a station's ability to attract audiences in the demographic groups targeted by its advertisers. In a number of our markets this is measured by periodic reports generated by independent national rating services. In the remainder of our markets it is measured by the results advertisers obtain through the actual running of an advertising schedule.

Advertisers measure these results based on increased demand for their goods or services and/or actual revenues generated from such demand. Various factors affect the rate a station can charge, including the general strength of the local and national economies, population growth, ability to provide popular programming, local market competition, target marketing capability of radio compared to other advertising media and signal strength. Because reaching a large and demographically attractive audience is crucial to a station's financial success, we endeavor to develop strong listener loyalty. When we acquire and/or begin to operate a station or group of stations we generally increase programming

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

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

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

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

Historically, our radio stations in the Columbus, Ohio, Manchester, New Hampshire, Milwaukee, Wisconsin, and Norfolk, Virginia markets have each represented 15% or more of our consolidated operating income. During the years ended December 31, 2005, 2004 and 2003, these markets when combined, represented approximately 75%, 73% and 81%, respectively, of our consolidated operating income. While radio revenues in each of the Columbus, Manchester, Milwaukee and Norfolk markets have remained relatively stable historically, an adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole. Total radio advertising dollars available in the Columbus, Ohio and Norfolk, Virginia markets have resulted in a decline in our revenue and related operating income in our radio stations there. We anticipate that this decline is temporary in nature. None of our television markets represented more than 15% or more of our consolidated operating income. The following tables describe the percentage of our consolidated operating income represented by each of these markets:

| | Percentage of Consolidated Operating Income for the Years Ended December 31, | | |
|---------------------------|---|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Market: | | | |
| Columbus, Ohio | 13% | 12% | 17% |
| Manchester, New Hampshire | 15% | 14% | 15% |
| Milwaukee, Wisconsin | 33% | 32% | 32% |
| Norfolk, Virginia | 14% | 15% | 17% |

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

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report on the performance of the broadcasting industry and it serves as an indicator of the market value of a group of stations. In addition, we use it to evaluate individual stations, market-level performance, overall operations and as a primary measure for incentive based compensation of executives and other members of management. Station operating income is not necessarily indicative of amounts that may be available to us for debt service requirements, other commitments, reinvestment or other discretionary uses. Station operating income is not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for our results of operations presented on a GAAP basis.

During the years ended December 31, 2005, 2004 and 2003, the radio stations in our four largest markets when combined, represented approximately 48%, 52% and 58%, respectively, of our consolidated station operating income. The following tables describe the percentage of our consolidated station operating income represented by each of these markets:

| | Percentage of Consolidated Station Operating Income (*) for the Years Ended December 31, | | |
|---------------------------|---|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Columbus, Ohio | 9% | 9% | 12% |
| Manchester, New Hampshire | 9% | 10% | 11% |
| Milwaukee, Wisconsin | 21% | 22% | 23% |
| Norfolk, Virginia | 9% | 11% | 12% |

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

Television Segment

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

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

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

to other advertising media, and signal strength including cable/satellite coverage, and government regulation and policies. Because audience ratings are crucial to a station's financial success, we endeavor to develop strong viewer loyalty.

When we acquire and/or begin operating a station or group of stations we generally increase programming expenses including local news, sports and weather programming, new syndicated programming, and advertising and promotion expenses to increase our viewership. Our strategy sometimes requires levels of spending commensurate with the revenue levels we plan on achieving in two to five years. During periods of economic downturns, or when the level of advertising spending is flat or down across the industry, this strategy may result in the appearance that our cost of operations are increasing at a faster rate than our growth in revenues,

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until such time as we achieve our targeted levels of revenue for the acquired/operated station or group of stations.

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

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

Most of our revenue is generated from local advertising, which is sold primarily by each television market's sales staff. For the years ended December 31, 2005, 2004 and 2003, approximately 79%, 80% and 79%, respectively, of our gross television segment revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television markets.

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

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

Results of Operations

The following tables summarize our results of operations for the three years ended December 31, 2005, 2004 and 2002.

Consolidated Results of Operations

| | Years Ended December 31, | | | 2005 vs. 2004 | | 2004 vs. 2003 | |
|---------------------------------|--------------------------|------------|------------|---------------------------|--------------------------|---------------------------|--------------------------|
| | 2005 | 2004 | 2003 | \$ Increase (Decrease) | % Increase (Decrease) | \$ Increase (Decrease) | % Increase (Decrease) |
| | (In thousands) | | | | | | |
| Net operating revenue | \$ 140,790 | \$ 134,644 | \$ 121,297 | \$ 6,146 | 4.6% | \$ 13,347 | 11.0% |
| Station operating expense | 104,411 | 94,914 | 86,083 | 9,497 | 10.0% | 8,831 | 10.3% |
| Corporate G&A | 8,174 | 8,343 | 6,649 | (169) | (2.0%) | 1,694 | 25.5% |
| Impairment of intangible assets | 1,168 | | | 1,168 | N/M | | |
| Operating income | 27,037 | 31,387 | 28,565 | (4,350) | (13.9%) | 2,822 | 9.9% |
| Interest expense | 7,586 | 4,522 | 4,779 | 3,064 | 67.8% | (257) | (5.4)% |
| Other expense | 2,668 | 32 | 1,131 | 2,636 | N/M | (1,099) | (97.2)% |

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| | | | | | | | |
|---------------------|-----------|-----------|-----------|------------|---------|----------|-------|
| Income taxes | 6,217 | 10,991 | 8,771 | (4,774) | (43.4%) | 2,220 | 25.3% |
| Net income | \$ 10,566 | \$ 15,842 | \$ 13,884 | \$ (5,276) | (33.3%) | \$ 1,958 | 14.1% |
| Earnings per share: | | | | | | | |
| Basic | \$.52 | \$.76 | \$.67 | \$ (.24) | (31.6%) | \$.09 | 13.4% |
| Diluted | \$.51 | \$.75 | \$.65 | \$ (.24) | (32.0%) | \$.10 | 15.4% |

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| | Years Ended December 31, | | | 2005 vs. 2004 | | 2004 vs. 2003 | |
|---------------------------------|--------------------------|------------|------------|------------------------|------------------------|------------------------|------------------------|
| | | | | \$ | % | \$ | % |
| | 2005 | 2004 | 2003 | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) |
| | (In thousands) | | | | | | |
| Net operating revenue | \$ 125,597 | \$ 120,191 | \$ 109,065 | \$ 5,406 | 4.5% | \$ 11,126 | 10.2% |
| Station operating expense | 90,967 | 82,053 | 74,914 | 8,914 | 10.9% | 7,139 | 9.5% |
| Impairment of intangible assets | 890 | | | 890 | N/M | | |
| Operating income | \$ 33,740 | \$ 38,138 | \$ 34,151 | \$ (4,398) | (11.5%) | \$ 3,987 | 11.7% |

Television Broadcasting Segment

| | Years Ended December 31, | | | 2005 vs. 2004 | | 2004 vs. 2003 | |
|---------------------------------|--------------------------|-----------|-----------|------------------------|------------------------|------------------------|------------------------|
| | | | | % | % | % | % |
| | 2005 | 2004 | 2003 | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) |
| | (In thousands) | | | | | | |
| Net operating revenue | \$ 15,193 | \$ 14,453 | \$ 12,232 | \$ 740 | 5.1% | \$ 2,221 | 18.2% |
| Station operating expense | 13,444 | 12,861 | 11,169 | 583 | 4.5% | 1,692 | 15.2% |
| Impairment of intangible assets | 278 | | | 278 | N/M | | |
| Operating income | \$ 1,471 | \$ 1,592 | \$ 1,063 | \$ (121) | (7.6%) | \$ 529 | 49.8% |

N/M=Not meaningful

Reconciliation of segment operating income to consolidated operating income:

| Year Ended December 31, 2005: | Radio | Television | Corporate and Other | Consolidated |
|--------------------------------------|----------------|------------|------------------------|--------------|
| | (In thousands) | | | |
| Net operating revenue | \$ 125,597 | \$ 15,193 | \$ | \$ 140,790 |
| Station operating expense | 90,967 | 13,444 | | 104,411 |
| Corporate general and administrative | | | 8,174 | 8,174 |
| Impairment of intangible assets | 890 | 278 | | 1,168 |

Table of Contents**Year Ended December 31, 2005 Compared to Year Ended December 31, 2004*****Consolidated***

For the year ended December 31, 2005 net operating revenue was \$140,790,000 compared with \$134,644,000 for the year ended December 31, 2004, an increase of \$6,146,000 or 5%. Approximately \$7,330,000 in our radio segment or 119% of the increase was attributable to revenue generated by stations, which we did not own or operate for the entire comparable period in 2004. Net operating revenue generated by stations we owned and operated for the entire comparable period (same station) decreased by approximately 1% or \$1,184,000. The decrease in same station revenue was attributable to a decrease in net same station political revenue of approximately 87% and a decrease in net same station national revenue of approximately \$1,079,000 or 5% offset by an increase in same station local revenue of approximately 2,514,000 or 2%.

Station operating expense increased by \$9,497,000 or 10% to \$104,411,000 for the year ended December 31, 2005, compared with \$94,914,000 for the year ended December 31, 2004. Of the total increase, approximately \$6,548,000 in our radio segment or 69% was the result of the impact of the operation of stations, which were not owned or operated by us for the entire comparable period in 2004. The remaining balance of the increase in station operating expense of \$2,949,000 represents a total increase in station operating expense of 3% on a same station basis, as a result of an increase in programming expenses due to increased competitive pressures in several of our radio markets, an increase in station general and administrative expense of approximately \$950,000 primarily as a result of a 14% increase in health care costs and increase in depreciation and amortization expense of approximately \$355,000.

Operating income for the year ended December 31, 2005 was \$27,037,000 compared to \$31,387,000 for the year ended December 31, 2004, a decrease of \$4,350,000 or 14%. The decrease was the result of the increase in net operating revenue, a decrease in corporate general and administrative charges of approximately \$169,000 or 2%, offset by the increase in station operating expense as discussed above and \$1,168,000 impairment charges related to the goodwill and broadcast license values recorded in our Jonesboro, Arkansas radio market and Greenville, Mississippi television market during the fourth quarter of 2005.

We generated net income in the amount of approximately \$10,566,000 (\$0.51 per share on a fully diluted basis) during the year ended December 31, 2005 compared with \$15,842,000 (\$0.75 per share on a fully diluted basis) for the year ended December 31, 2004, a decrease of approximately \$5,276,000 or 33%. The decrease was the result of the decrease in operating income discussed above, an increase in interest expense and other expense of approximately \$3,064,000 and \$2,636,000 respectively offset by a \$4,774,000 decrease in income tax expense. The increase in interest expense was the result of interest on additional borrowings of approximately \$1,087,000 and higher interest rates over the prior year of approximately \$1,977,000. The increase in other expense was primarily the result of losses recognized on the disposition of assets including approximately \$1,300,000 relating to a television tower made obsolete by our DTV conversion in Victoria, Texas, and approximately \$500,000 from the sale of land in Columbus, Ohio. The decrease in income tax expense was primarily attributable to our operating performance and a tax benefit from the sale of the Columbus land of approximately \$700,000 in the fourth quarter as the gain for tax purposes was offset against a capital loss carry forward that was expiring at the end of the year reducing our effective tax rate by approximately 4%.

Radio Segment

For the year ended December 31, 2005, net operating revenue in the radio segment was \$125,597,000 compared with \$120,191,000 for the year ended December 31, 2004, an increase of \$5,406,000 or 5%. Approximately \$7,330,000 or 136% of the increase was attributable to revenue generated by radio stations and radio networks that we did not own or operate for the comparable period in 2004. Net operating revenue generated by radio stations and radio networks

that we owned and operated for the entire comparable period decreased by approximately 2% or \$1,924,000. This decrease was primarily the result of a \$1,840,000 or 83% decrease in same station net political revenue and a \$1,321,000 or 7% decrease in same station national revenue offset by an increase in same station net local revenue of approximately \$802,000 or 1%. The

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decreases in national revenue were primarily attributable to several markets where we have experienced competitive pressure.

Station operating expense (i.e., programming, technical, selling and station general and administrative expenses) in our radio segment increased by \$8,914,000 or 11% to \$90,967,000 for the year ended December 31, 2005, compared with \$82,053,000 for the year ended December 31, 2004. Of the total increase, approximately \$6,548,000 or 73% was the result of the impact of the operation of stations that we did not own or operate for the comparable period in 2004. Station operating expense increased by approximately \$2,366,000 or 3% on a same station basis, which was directly attributable to an increase in programming expenses as a result of competitive pressures in several of our radio markets, an increase in station general and administrative expense of approximately \$647,000 primarily as a result of a 16% increase in health care costs and an increase in depreciation and amortization expense of approximately \$306,000.

Operating income in the radio segment for the year ended December 31, 2005 was \$33,740,000 compared to \$38,138,000 for the year ended December 31, 2004, a decrease of approximately \$4,398,000 or 12%. The decrease was the result of the increase in net operating revenue, offset by the increase in station operating expense as discussed above and \$890,000 impairment charge related to the goodwill value in our Jonesboro, Arkansas market which was recorded during the fourth quarter of 2005 as a result of our annual impairment test.

Television Segment

For the year ended December 31, 2005, net operating revenue in the television segment was \$15,193,000 compared with \$14,453,000 for the year ended December 31, 2004, an increase of \$740,000 or 5%. The majority of the improvement in net operating revenue was attributable to the Fox affiliate in Joplin, Missouri that went on the air in October 2003.

Station operating expense in our television segment increased by \$583,000 or 5% to \$13,444,000 for the year ended December 31, 2005, compared with \$12,861,000 for the year ended December 31, 2004. The station operating expense increases were attributable to increases in general and administrative expenses and a \$49,000 or 3% increase in depreciation expense.

Operating income in the television segment for the year ended December 31, 2005 was \$1,471,000 compared to \$1,592,000 for the year ended December 31, 2004, a decrease of approximately \$121,000 or 8%. The decrease was the result of the increase in net operating revenue offset by the increase in station operating expense as discussed above and \$278,000 impairment charges related to the goodwill and broadcast license values recorded in our Greenville, Mississippi television station during the fourth quarter of 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Consolidated

For the year ended December 31, 2004 net operating revenue was \$134,644,000 compared with \$121,297,000 for the year ended December 31, 2003, an increase of \$13,347,000 or 11%. Approximately \$6,725,000 (\$5,679,000 in our radio segment and \$1,046,000 in our television segment) or 50% of the increase was attributable to revenue generated by stations which we did not own or operate for the entire comparable period in 2003. The balance of the increase in net operating revenue of approximately \$6,622,000 was attributable to stations we owned and operated for the entire comparable period (same station), representing a 6% increase in same station net operating revenue. The overall increase in same station revenue was primarily the result of an increase in local and political revenue at a majority of our stations. Improvements were noted in most of our markets on a same station basis.

Station operating expense increased by \$8,831,000 or 10% to \$94,914,000 for the year ended December 31, 2004, compared with \$86,083,000 for the year ended December 31, 2003. Of the total increase, approximately \$5,292,000 (\$4,639,000 in our radio segment and \$653,000 in our television segment) or 60% was the result of the impact of the operation of stations which were not owned or operated by us for the entire comparable period in 2003. The remaining balance of the increase in station operating expense of \$3,539,000

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represents a total increase in station operating expense of 4% on a same station basis, as a result of an increase in selling and commission expenses which were directly attributable to the increase in revenue, and increases in programming expenses and advertising and promotions expense as a result of increased advertising and promotion expenses incurred in fighting off format attacks in four of our largest markets.

Operating income for the year ended December 31, 2004 was \$31,387,000 compared to \$28,565,000 for the year ended December 31, 2003, an increase of \$2,822,000 or 10%. The increase was the result of the increase in net operating revenue, offset by the increase in station operating expense, and a \$1,694,000 or 26% increase in corporate general and administrative charges. The increase in corporate general and administrative charges was primarily attributable to approximately \$1,020,000 in charges incurred in Sarbanes-Oxley Section 404 related costs including professional fees, consulting fees, additional salaries and travel expenses; charges incurred in listing our stock on the New York Stock Exchange of approximately \$200,000; and an overall increase in corporate general and administrative costs of 7% primarily attributable to the growth of the Company as a whole.

We generated net income in the amount of approximately \$15,842,000 (\$0.75 per share on a fully diluted basis) during the year ended December 31, 2004 compared with \$13,884,000 (\$0.65 per share on a fully diluted basis) for the year ended December 31, 2003, an increase of approximately \$1,958,000 or 14%. The increase was the result of the increase in operating income discussed above, a decrease in interest expense and other expense of approximately \$257,000 and \$1,099,000 respectively offset by \$2,220,000 increase in income tax expense. The decrease in interest expense was the result of lower interest rates over the prior year and the expiration of our swap agreements in September 2003. The decrease in other expense was the principally the result of a \$1,206,000 charge incurred for the write-off of unamortized debt issuance costs in 2003 offset by gains recognized on the sale of two of our AM radio stations in our Columbus, Ohio and Springfield, Illinois markets during the year ended December 31, 2003. The increase in income tax expense was directly attributable to an increase in our effective tax rate related to increased tax brackets and our improvement in operating performance.

Radio Segment

For the year ended December 31, 2004, net operating revenue in the radio segment was \$120,191,000 compared with \$109,065,000 for the year ended December 31, 2003, an increase of \$11,126,000 or 10%. Approximately \$5,679,000 or 51% of the increase was attributable to revenue generated by radio stations and radio networks that we did not own or operate for the comparable period in 2003. Net operating revenue generated by radio stations and radio networks that we owned and operated for the entire comparable period increased by approximately 5% or approximately \$5,447,000. This increase was primarily the result of improvements in the economy, which contributed to an increase in demand for advertising and an increase in advertising rates at the majority of our radio stations. The majority of the improvement in same station revenue was attributable to same station local revenue increases of approximately 6% and a 424% (or \$2,059,000) increase in political revenue, while our same station national revenue decreased by approximately 7%.

Station operating expense (i.e., programming, technical, selling and station general and administrative expenses) in our radio segment increased by \$7,139,000 or 10% to \$82,053,000 for the year ended December 31, 2004, compared with \$74,914,000 for the year ended December 31, 2003. Of the total increase, approximately \$4,639,000 or 65% was the result of the impact of the operation of stations that we did not own or operate for the comparable period in 2003. Station operating expense increased by approximately \$2,500,000 or 3% on a same station basis, which was directly attributable to the increase in revenue.

Operating income in the radio segment for the year ended December 31, 2004 was \$38,138,000 compared to \$34,151,000 for the year ended December 31, 2003, an increase of approximately \$3,987,000 or 12%. The increase was the result of the increase in net operating revenue, offset by the increase in station operating expense.

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Television Segment

For the year ended December 31, 2004, net operating revenue in the television segment was \$14,453,000 compared with \$12,232,000 for the year ended December 31, 2003, an increase of \$2,221,000 or 18%. Approximately \$1,046,000 or 47% of the increase was attributable to revenue generated by television stations that we did not own or operate for the comparable period in 2003. Net operating revenue generated by stations that we owned and operated for the entire comparable period increased by approximately 10% or approximately \$1,175,000. Approximately \$570,000 or 49% of the same station increase was the result of an increase in political advertising. The remaining increase in revenue was primarily the result of improvements in the economy, which contributed to an increase in demand for advertising at the majority of our television stations. Same station national revenue increased by approximately 8%, while same station local revenue increased approximately 10%. Approximately 21% of our gross revenue in our television segment is attributable to national advertising.

Station operating expense in our television segment increased by \$1,692,000 or 15% to \$12,861,000 for the year ended December 31, 2004, compared with \$11,169,000 for the year ended December 31, 2003. Of the total increase, approximately \$653,000 or 39% was the result of the impact of the operation of television stations that we did not own or operate for the comparable period in 2003. Station operating expense increased by approximately \$1,039,000 or 10% on a same station basis, which was attributable to increases in selling and commission expenses as a result of the increase in revenue.

Operating income in the television segment for the year ended December 31, 2004 was \$1,592,000 compared to \$1,063,000 for the year ended December 31, 2003, an increase of approximately \$529,000 or 50%. The increase was the result of the increase in net operating revenue and the increase in station operating expense.

Liquidity and Capital Resources

Debt Arrangements and Debt Service Requirements

As of December 31, 2005 we had \$148,911,000 of long-term debt outstanding (including the current portion of \$7,000,000) and approximately \$52,150,000 of unused borrowing capacity under our Credit Agreement. In January 2006 we used available cash to pay down \$7,000,000 of outstanding debt.

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

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

In May 2005 we amended the Credit Agreement to reduce the interest rate margin for LIBOR and the Agent bank's base rate. Interest rates under the Credit Agreement are payable, at our option, at alternatives equal to LIBOR at the rate reset date (4.563% at December 31, 2005) plus 0.75% to 1.625% (1.375% to 2.0% as of December 31, 2004) or the Agent bank's base rate plus 0% to 0.375% (0.125% to 0.75% as of December 31, 2004). The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment

fees of 0.375% to 0.625% per annum on the unused portion of the Credit Agreement

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at December 31, 2005) which, among other things, require us to maintain specified financial ratios and

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impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

Periodically we enter into interest rate swap agreements to reduce our risk of rising interest rates. Our swap agreements, which expired in September, 2003, were used to convert the variable Eurodollar interest rate of a portion of our bank borrowings to a fixed interest rate. At December 31, 2005 and 2004 we had no interest rate swap agreements in place.

In 2003 we entered into an agreement of understanding with Surtsey, whereby we have guaranteed up to \$1,250,000 of the debt incurred by Surtsey to acquire the broadcast license for KFJX-TV station in Pittsburg, Kansas, a full power Fox affiliate. At December 31, 2005 there was \$1,061,000 outstanding under this agreement. Under the FCC's ownership rules we are prohibited from owning or having an attributable or cognizable interest in this station. We do not have any recourse provision in connection with our guarantee that would enable us to recover any amounts paid under the guarantee. As a result, at December 31, 2005 we have recorded \$1,061,000 in debt and \$1,061,000 in intangible assets, primarily broadcast licenses. In consideration for our guarantee, Surtsey has entered into various agreements with us relating to the station, including a Shared Services Agreement, Technical Services Agreement, Agreement for the Sale of Commercial Time, Option Agreement and Broker Agreement.

Sources and Uses of Cash

During the years ended December 31, 2005, 2004 and 2003, we had net cash flows from operating activities of \$26,617,000, \$30,004,000 and \$27,382,000, respectively. We believe that cash flow from operations will be sufficient to meet quarterly debt service requirements for interest and scheduled payments of principal under the Credit Agreement. However, if such cash flow is not sufficient we may be required to sell additional equity securities, refinance our obligations or dispose of one or more of our properties in order to make such scheduled payments. There can be no assurance that we would be able to effect any such transactions on favorable terms, if at all.

During the year ended December 31, 2005 we borrowed \$4,000,000 under the Credit Agreement for general corporate purposes

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

On November 22, 2005 we acquired one AM station (WVAX-AM) serving Charlottesville, Virginia market for approximately \$151,000. We financed this acquisition with funds generated from operations.

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

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

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

Effective January 1, 2005 we acquired a low power television station (KXTS-LP) serving Victoria, Texas market for approximately \$268,000 with funds generated from operations.

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In addition, the following transaction was pending at December 31, 2005 which we expect to finance through funds generated from operations or additional borrowings under our Credit Agreement:

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

The following acquisitions in 2004 were financed through funds generated from operations:

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

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

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

On August 10, 2004 we sold an AM radio station (WJQY-AM) serving the Springfield, Tennessee market for approximately \$150,000 in cash.

We continue to actively seek and explore opportunities for expansion through the acquisition of additional broadcast properties. See Item 1. Business Strategy.

In May 2005, our board of directors authorized an increase to our Stock Buy-Back Program so that we are authorized to purchase up to a total of \$30,000,000 of our Class A Common Stock. From the inception of the Stock Buy-Back program in 1998 through December 31, 2005, we have repurchased 1,473,689 shares of our Class A Common Stock for approximately \$22,600,000. During the year ended December 31, 2005 we repurchased an aggregate of 489,325 shares for approximately \$7,433,000.

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

Our capital expenditures, exclusive of acquisitions, for the year ended December 31, 2005 were approximately \$10,426,000 (\$11,098,000 in 2004). We anticipate capital expenditures in 2006 to be approximately \$9,000,000 to \$9,500,000, which we expect to finance through funds generated from operations or additional borrowings under the Credit Agreement.

Summary Disclosures About Contractual Obligations

We have future cash obligations under various types of contracts under the terms of our Credit Agreement, operating leases, programming contracts, employment agreements, and other operating contracts.

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The following tables reflect a summary of our contractual cash obligations and other commercial commitments as of December 31, 2005:

| Contractual Obligations(1): | Total | Payments Due By Period | | | |
|---|-------------------|------------------------|-----------------------------------|-------------------|-------------------------|
| | | Less Than 1 Year | 1 to 3 Years (In thousands) | 3 to 5 Years | More Than 5 Years |
| Long-Term Debt Obligations (2) | \$ 148,911 | \$ | \$ 47,850 | \$ 101,061 | \$ |
| Operating Leases | 7,217 | 1,554 | 2,002 | 832 | 2,829 |
| Purchase Obligations (3) | 50,932 | 26,480 | 18,326 | 5,486 | 640 |
| Other Long-Term Liabilities | | | | | |
| Total Contractual Cash Obligations | \$ 207,060 | \$ 28,034 | \$ 68,178 | \$ 107,379 | \$ 3,469 |

- (1) The above amounts do not include interest, which is primarily variable in amount.
- (2) Under our Credit Agreement, the maturity on outstanding debt of \$147,850,000 could be accelerated if we do not maintain certain covenants. Includes the guarantee of debt of a related party of \$1,061,000 (see Note 10 of our consolidated financial statements).
- (3) (a) Includes \$8,000,000 of commitment to acquire radio station WOXL.
- (b) Includes \$16,250,000 in obligations under employment agreements and contracts with on-air personalities, other employees, and our president, CEO, and chairman, Edward K. Christian.
- (c) Includes \$26,682,000 in purchase obligations under general operating agreements and contracts including but not limited to syndicated programming contracts; sports programming rights; software rights; ratings services; television advertising; and other operating expenses.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis, including estimates related to the following:

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

Carrying Value of Accounts Receivable and Related Allowance for Doubtful Accounts: We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, credit history, etc.), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past loss history and the length of time the receivables are past due, ranging from 50% for amounts 90 days outstanding to 100% for amounts over 120 days outstanding. If our evaluations of the collectibility of our accounts receivable differ from actual results, additional bad debt expense and allowances may be required. Our historical estimates have been a reliable method to estimate future allowances and our average reserves have been approximately 4% of our outstanding receivables. The effect of an increase in our allowance of 1% of our outstanding receivables as of December 31, 2005, from 4.45% to 5.45% or from \$1,071,000 to \$1,312,000 would result in a decrease in net income of \$142,000, net of taxes for the year ended December 31, 2005.

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Purchase Accounting: We account for our acquisitions under the purchase method of accounting. The total cost of acquisitions is allocated to the underlying net assets, based on their respective estimated fair values as of the acquisition date. The excess of consideration paid over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair values of the net assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items.

Broadcast Licenses and Goodwill: We have a significant amount of broadcast licenses and goodwill recorded in our balance sheets, which at December 31, 2005 represents 62% of our total assets. We determine the recoverability of the cost of our intangible assets based on a review of projected undiscounted cash flows of the related market or segment.

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

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

The radio and television broadcasting licenses may be renewed indefinitely at little cost.

The radio and television broadcasting licenses are essential to our business, and we intend to renew our licenses indefinitely.

We have never been denied the renewal of a FCC broadcast license.

We do not believe that there will be any compelling challenge to the renewal of our broadcast licenses.

We do not believe that the technology used in broadcasting will be replaced by another technology in the foreseeable future.

We test our goodwill and broadcast licenses for impairment as of October 1 of each year by comparing their fair value to the related carrying value as of that date. The results of these tests indicated an impairment charge of the carrying value of goodwill and broadcast licenses of approximately \$1,168,000 during the fourth quarter 2005. We used a market approach to determine the fair value of our broadcast licenses as well as the fair value of our reporting units. The market approach used for valuing broadcast licenses and goodwill takes into consideration information available on recent transactions of radio and television stations similar to those owned by us, within the broadcast industry. To determine the fair value of broadcast licenses and the reporting units goodwill requires the use of estimates in our assumptions. Changes in these estimates could result in additional impairment of intangible assets in the future.

Litigation and Contingencies: We monitor ongoing litigation and other loss contingencies on a case-by-case basis as they arise. Losses related to litigation and other contingencies are recognized when the loss is considered probable and the amount is estimable.

Market Risk and Risk Management Policies

Our earnings are affected by changes in short-term interest rates as a result of our long-term debt arrangements. If market interest rates averaged 1% higher in 2005 than actually incurred in 2005, our interest expense, would increase and income before taxes would decrease by \$1,505,000 (\$1,241,000 in 2004). These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost, short-term investment balances, and

interest rate swap agreements, if applicable. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

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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.

Recent Accounting Pronouncements

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) No. SFAS 123R-3 Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards . This election provides for alternative transition methods to establish the beginning balance of the additional paid-in-capital pool (APIC pool). The purpose of the APIC pool is to determine the excess tax benefits related to share-based payment awards that will be available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123[®]. The APIC pool will also have an impact on the computation of diluted net income per share. We are currently evaluating the provisions of this pronouncement to determine the impact on our results of operations and financial position.

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

On December 16, 2004 the FASB issued FASB Statement No. 123(R) Share-Based Payment, which significantly changes the accounting for all share-based payments to employees, including grants of employee stock options, by requiring us to recognize in the financial statement using a suggested method different than the method that we currently use to determine the fair value of options. The pronouncement is effective as of our interim period beginning July 1, 2005. Effective January 1, 2006, we will adopt SFAS 123(R) in accounting for share-based awards under the modified prospective approach, which will have a material impact in our results of operations. At December 31, 2005, substantially all of our options are vested, and the pretax expense expected to be recorded in 2006 related to stock options outstanding at December 31, 2005 is approximately \$300,000. We are unable to quantify the impact of the adoption of the pronouncement for future years, as the impact will be affected by many factors, including the future grants of share-based payments and future exercises of grants previously issued. See Note 1 for a discussion of our current treatment of share-based compensation and the effect for the year ended December 31, 2005.

On September 29, 2004, the Securities and Exchange Commission Staff (SEC) made an announcement regarding the Use of the Residual Method to Value Acquired Assets Other than Goodwill (Topic D-108). The SEC concluded that the use of the residual method does not comply with the requirements of FASB Statement No. 141 Business Combinations, and accordingly, should no longer be used. Instead, a direct value method should be used to determine the fair value of all intangible assets required to be recognized under Statement 141. For companies that have applied the residual value method to the valuation of intangible assets, including the use of the residual value method to test impairment of indefinite-lived intangible assets, Topic D-108 becomes effective in fiscal years beginning after December 15, 2004. Impairments of intangible assets recognized upon application of a direct value method by entities previously applying the residual method will be reported as a non-cash charge related to the cumulative effect of a change in accounting principle. The provisions of this Staff Announcement did not have an impact on our results of operations and financial position.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information appearing under the caption Market Risk and Risk Management Policies in Item 7 is hereby incorporated by reference.

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Item 8. Financial Statements and Supplementary Data

The financial statements attached hereto are filed as part of this annual report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure 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 (the Exchange Act). 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 Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears below.

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Attestation Report of the Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Saga Communications, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Saga Communications, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Saga Communications, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Saga Communications, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Saga Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Saga Communications, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Saga Communications, Inc. and our report dated March 7, 2006 expressed an unqualified opinion thereon.

Detroit, Michigan
March 7, 2006

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Item 9B. Other Information

None.

Part III

Item 10. Directors and Executive Officers of the Registrant

Election of Directors , Corporate Governance and Section 16(a) Beneficial Ownership Reporting Compliance in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before May 1, 2006 are incorporated by reference herein. See also Item 1. Business Executive Officers.

Item 11. Executive Compensation

Executive Compensation and Corporate Governance in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before May 1, 2006 is hereby incorporated by reference herein. Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before May 1, 2006 is hereby incorporated by reference herein. In addition, the information contained in the Securities Authorized for Issuance Under Equity Compensation Plan Information subheading under Item 5 of this report is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

Certain Business Relationships and Transactions with Directors and Management in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before May 1, 2006 is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

Proposal to Ratify Appointment of Registered Public Accounting Firm in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before May 1, 2006 is incorporated by reference herein.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

The following consolidated financial statements attached hereto are filed as part of this annual report:

Report of Independent Registered Public Account Firm Consolidated Financial Statements:

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II Valuation and qualifying accounts is disclosed in Note 1 to the consolidated financial statements attached hereto and filed as part of this annual report. All other schedules for which provision are made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibits

The Exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Saga Communications, Inc.

We have audited the accompanying consolidated balance sheets of Saga Communications, Inc. (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saga Communications, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Saga Communications, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2006 expressed an unqualified opinion thereon.

Detroit, Michigan
March 7, 2006

Table of Contents**Saga Communications, Inc.****Consolidated Balance Sheets**

| | December 31, | |
|--|-----------------------|-------------|
| | 2005 | 2004 |
| | (In thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,168 | \$ 9,113 |
| Accounts receivable, less allowance of \$1,071 (\$922 in 2004) | 22,998 | 23,692 |
| Prepaid expenses and other current assets | 3,621 | 2,447 |
| Barter transactions | 1,381 | 1,312 |
| Deferred taxes | 594 | 1,060 |
| Total current assets | 43,762 | 37,624 |
| Net property and equipment | 69,669 | 66,364 |
| Other assets: | | |
| Broadcast licenses, net | 148,925 | 130,110 |
| Goodwill, net | 48,762 | 37,133 |
| Other intangibles, deferred costs and investments, net of accumulated amortization of \$11,433 (\$9,666 in 2004) | 7,747 | 8,923 |
| Total other assets | 205,434 | 176,166 |
| | \$ 318,865 | \$ 280,154 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,245 | \$ 2,128 |
| Accrued expenses: | | |
| Payroll and payroll taxes | 7,063 | 7,066 |
| Other | 4,145 | 4,971 |
| Barter transactions | 1,691 | 1,681 |
| Current portion of long-term debt | 7,000 | |
| Total current liabilities | 21,144 | 15,846 |
| Deferred income taxes | 26,174 | 23,083 |
| Long-term debt | 141,911 | 121,161 |
| Broadcast program rights | 1,748 | 1,119 |
| Other | 2,064 | 1,720 |
| Stockholders equity: | | |
| Preferred stock, 1,500 shares authorized, none issued and outstanding | | |
| Common stock: | | |
| Class A common stock, \$.01 par value, 35,000 shares authorized, 18,792 issued and outstanding (18,699 in 2004) | 188 | 187 |

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| | | |
|--|------------|------------|
| Class B common stock, \$.01 par value, 3,500 shares authorized, 2,369 issued and outstanding (2,360 in 2004) | 24 | 24 |
| Additional paid-in capital | 48,639 | 48,387 |
| Retained earnings | 88,685 | 78,119 |
| Accumulated other comprehensive income | | 60 |
| Treasury stock (694 shares in 2005 and 531 in 2004, at cost) | (11,002) | (9,552) |
| Unearned compensation on restricted stock | (710) | |
| Total stockholders' equity | 125,824 | 117,225 |
| | \$ 318,865 | \$ 280,154 |

See accompanying notes.

Table of Contents**Saga Communications, Inc.****Consolidated Statements of Income**

| | Years Ended December 31, | | |
|--|--|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands, except per share data) | | |
| Net operating revenue | \$ 140,790 | \$ 134,644 | \$ 121,297 |
| Station operating expense | 104,411 | 94,914 | 86,083 |
| Corporate general and administrative | 8,174 | 8,343 | 6,649 |
| Impairment of intangible assets | 1,168 | | |
| | 113,753 | 103,257 | 92,732 |
| Operating income | 27,037 | 31,387 | 28,565 |
| Other expenses: | | | |
| Interest expense | 7,586 | 4,522 | 4,779 |
| Other | 2,668 | 32 | 1,131 |
| Income before income tax | 16,783 | 26,833 | 22,655 |
| Income tax provision: | | | |
| Current | 2,627 | 6,854 | 5,177 |
| Deferred | 3,590 | 4,137 | 3,594 |
| | 6,217 | 10,991 | 8,771 |
| Net income | \$ 10,566 | \$ 15,842 | \$ 13,884 |
| Basic earnings per share | \$.52 | \$.76 | \$.67 |
| Weighted average common shares | 20,482 | 20,752 | 20,817 |
| Diluted earnings per share | \$.51 | \$.75 | \$.65 |
| Weighted average common and common equivalent shares | 20,675 | 21,167 | 21,301 |

See accompanying notes.

Table of Contents**Saga Communications, Inc.****Consolidated Statements of Stockholders Equity
Years ended December 31, 2005, 2004 and 2003**

| | Class A | | Class B Common | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive | | Deferred Compen- sation | Total Stock- holders Equity |
|---|------------------|--------|-------------------|--------|----------------------------------|----------------------|---------------------------------------|-------------------|-------------------------------|--------------------------------------|
| | Common Shares | Amount | Shares | Amount | | | Income (loss) | Treasury Stock | | |
| Balance at January 1, 2003 | 18,499 | \$ 185 | 2,360 | \$ 24 | \$ 45,649 | \$ 48,393 | \$ (464) | \$ (728) | \$ | \$ 93,055 |
| Comprehensive income: | | | | | | 13,884 | | | | 13,884 |
| Net income | | | | | | | | | | |
| Change in fair value of derivatives, net of tax | | | | | | | 464 | | | 464 |
| Change in market value of securities, net of tax | | | | | | | 29 | | | 29 |
| Total comprehensive income | | | | | | | | | | 14,377 |
| Proceeds from exercised options | 93 | 1 | | | 1,220 | | | (844) | | 377 |
| Acquisition of broadcast properties | | | | | 234 | | | 829 | | 1,063 |
| Repurchase of shares held in treasury | | | | | | | | (2,007) | | (2,007) |
| Employee stock purchase plan | | | | | 104 | | | 271 | | 375 |
| Balance at December 31, 2003 | 18,592 | \$ 186 | 2,360 | \$ 24 | \$ 47,207 | \$ 62,277 | \$ 29 | \$ (2,479) | \$ | \$ 107,242 |
| Comprehensive income: | | | | | | 15,842 | | | | 15,842 |
| Net income | | | | | | | | | | |
| Change in market value of securities, net of tax | | | | | | | 31 | | | 31 |
| Total comprehensive income | | | | | | | | | | 15,873 |
| Proceeds from exercised options | 107 | 1 | | | 1,214 | | | | | 1,322 |
| Repurchase of shares held in treasury | | | | | | | | (7,522) | | (7,522) |
| Employee stock purchase plan | | | | | (34) | | | 449 | | 415 |

Employee stock purchase
plan

Balance at

December 31, 2004

18,699 \$ 187 2,360 \$ 24 \$ 48,387 \$ 78,119 \$ 60 \$ (9,552) \$ 117,222

Comprehensive income:

Net income

10,566 10,566

Change in market value

of securities, net of tax

2

Gain realized on sale of

securities, net of tax

(62) (62)

Total comprehensive

income

10,504

Proceeds from

exercised options

42 496 496

Balance of restricted

stock

51 1 9 851 (852)

Acquisition of broadcast

properties

(1,011) 5,599 4,588

Amortization of deferred

compensation

142 142

Purchase of shares held

in treasury

(7,433) (7,433)

Employee stock purchase

plan

(84) 384 300

Balance at

December 31, 2005

18,792 \$ 188 2,369 \$ 24 \$ 48,639 \$ 88,685 \$ (11,002) \$ (710) \$ 125,822

See accompanying notes.

Table of Contents**Saga Communications, Inc.****Consolidated Statements of Cash Flows**

| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 10,566 | \$ 15,842 | \$ 13,884 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 9,040 | 7,252 | 7,002 |
| Impairment of intangible assets | 1,168 | | |
| Barter revenue, net of barter expenses | (239) | 251 | (367) |
| Broadcast program rights amortization | 535 | 484 | 366 |
| Deferred taxes | 3,590 | 4,137 | 3,594 |
| Loss (gain) on sale of assets | 2,668 | 32 | (75) |
| Deferred and other compensation | 206 | 172 | 175 |
| Amortization of deferred compensation | 142 | | |
| Amortization of deferred costs | 316 | 270 | 1,444 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in receivables and prepaids | 683 | (512) | (890) |
| Payments for broadcast program rights | (530) | (504) | (356) |
| (Decrease) increase in accounts payable, accrued expenses, and other liabilities | (1,528) | 2,580 | 2,605 |
| Total adjustments | 16,051 | 14,162 | 13,498 |
| Net cash provided by operating activities | 26,617 | 30,004 | 27,382 |
| Cash flows from investing activities: | | | |
| Acquisition of property and equipment | (10,426) | (11,098) | (8,118) |
| Increase in other intangibles and other assets | (599) | (2,433) | (543) |
| Acquisition of broadcast properties | (31,729) | (13,611) | (24,424) |
| Proceeds from sale and disposal of assets | 1,835 | 1,070 | 465 |
| Net cash used in investing activities | (40,919) | (26,072) | (32,620) |
| Cash flows from financing activities: | | | |
| Proceeds from long-term debt | 34,750 | 1 | 128,600 |
| Payments on long-term debt | (7,000) | (45) | (113,683) |
| Payments for debt issuance costs | (200) | | (1,899) |
| Purchase of shares held in treasury | (7,433) | (7,522) | (2,007) |
| Net proceeds from exercise of stock options | 240 | 981 | 119 |
| Net cash provided by (used in) financing activities | 20,357 | (6,585) | 11,130 |
| Net increase (decrease) in cash and cash equivalents | 6,055 | (2,653) | 5,892 |
| Cash and cash equivalents, beginning of year | 9,113 | 11,766 | 5,874 |

| | | | |
|--|-----------|----------|-----------|
| Cash and cash equivalents, end of year | \$ 15,168 | \$ 9,113 | \$ 11,766 |
|--|-----------|----------|-----------|

See accompanying notes.

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Saga Communications, Inc.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Business

Saga Communications, Inc. is a broadcasting company whose business is devoted to acquiring, developing and operating broadcast properties. As of December 31, 2005 we owned or operated eighty-seven radio stations, five television stations, four low-power television stations and five radio information networks serving twenty-six markets throughout the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of Saga Communications, Inc. and our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we do not believe that the ultimate settlement of any amounts reported will materially affect our financial position or results of future operations, actual results may differ from estimates provided.

Concentration of Risk

Historically our top five markets when combined represented 43%, 47% and 50% of our net operating revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

Concentration of Credit Risk

We sell advertising to local and national companies throughout the United States. We perform ongoing credit evaluations of our customers and generally do not require collateral. We maintain an allowance for doubtful accounts at a level which we believe is sufficient to cover potential credit losses.

Financial Instruments

We account for derivatives and hedging activities in accordance with Statements of Financial Accounting Standards SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires that all derivatives be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings (see Note 3).

We account for marketable securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which requires that certain debt and equity securities be classified into one of three categories: held-to-maturity, available-for-sale, or trading securities, and depending upon the classification, value the security at

fair market value. During the year ended December 31, 2005, we realized a gain on sale of securities of approximately \$97,000. Unrealized gains, net of related taxes, for the years ended December 31, 2004 and 2003 of \$31,000 and \$29,000, respectively, were reported as a component of accumulated other comprehensive income of stockholders equity. We have no marketable securities at December 31, 2005 (see Note 3).

Our financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable, long-term debt. The carrying value of cash and cash equivalents, accounts receivable and accounts

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

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 December 31, 2005.

Allowance for Doubtful Accounts

A provision for doubtful accounts is recorded based on our judgment of the collectibility of receivables. Amounts are written off when determined to be fully uncollectible. Delinquent accounts are based on contractual terms. The activity in the allowance for doubtful accounts during the years ended December 31, 2005, 2004 and 2003 was as follows:

| Year Ended | Balance at Beginning of Period | Charged to Costs and Expenses | Write Off Uncollectible Accounts, Net of Recoveries | Balance at End of Period |
|-------------------|---|--|--|---|
| | (In thousands) | | | |
| December 31, 2005 | \$ 922 | \$ 700 | \$ (551) | \$ 1,071 |
| December 31, 2004 | 979 | 539 | (596) | 922 |
| December 31, 2003 | 932 | 776 | (729) | 979 |

Barter Transactions

Our radio and television stations trade air time for goods and services used principally for promotional, sales and other business activities. An asset and a liability are recorded at the fair market value of goods or services received. Barter revenue is recorded when commercials are broadcast, and barter expense is recorded when goods or services are received or used. Barter transactions are recorded at the estimated fair value of the goods or services received.

Property and Equipment

Property and equipment are carried at cost. Expenditures for maintenance and repairs are expensed as incurred. When property and equipment is sold or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts and the gain or loss realized on disposition is reflected in earnings. Depreciation is provided using the straight-line method based on the estimated useful life of the assets. We evaluate the recoverability of our property and equipment, deferred costs and investments, in accordance with SFAS No. 144, Accounting for the Impairment of Long-Lived Assets .

Property and equipment consisted of the following:

| | | |
|----------------------------------|------------------------------|-------------|
| Estimated Useful Life | December 31, 2005 | 2004 |
|----------------------------------|------------------------------|-------------|

(In thousands)

| | | | |
|--|------------|-----------|-----------|
| Land and land improvements | | \$ 10,129 | \$ 10,592 |
| Buildings | 31.5 years | 26,723 | 24,003 |
| Towers and antennae | 7-15 years | 24,764 | 23,839 |
| Equipment | 3-15 years | 65,429 | 64,837 |
| Furniture, fixtures and leasehold improvements | 7-20 years | 6,639 | 7,431 |
| Vehicles | 5 years | 3,524 | 2,791 |
| | | 137,208 | 133,493 |
| Accumulated depreciation | | (67,539) | (67,129) |
| Net property and equipment | | \$ 69,669 | \$ 66,364 |

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was \$7,588,000, \$6,910,000 and \$6,544,000, respectively.

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Saga Communications, Inc.

Notes to Consolidated Financial Statements (Continued)

Intangible Assets

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

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

The radio and television broadcasting licenses may be renewed indefinitely at little cost.

The radio and television broadcasting licenses are essential to our business, and we intend to renew our licenses indefinitely.

We have never been denied the renewal of a FCC broadcast license.

We do not believe that there will be any compelling challenge to the renewal of our broadcast licenses.

We do not believe that the technology used in broadcasting will be replaced by another technology in the foreseeable future.

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

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

In accordance with SFAS 142 we perform our impairment test of goodwill and broadcast licenses as of October 1 of each year by comparing their estimated fair value to the related carrying value as of that date (see Note 2).

Deferred Costs

The costs related to the issuance of debt are capitalized and accounted for as interest expense over the life of the debt. During the years ended December 31, 2005, 2004 and 2003, we recognized interest expense related to the amortization of debt issuance costs of \$316,000, \$270,000 and \$238,000, respectively. At December 31, 2005 and 2004 the net book value of deferred costs were \$1,418,000 and \$1,804,000, respectively, and were presented in other intangibles, deferred costs and investments.

Broadcast Program Rights

We record the capitalized costs of broadcast program rights when the license period begins and the programs are available for use. Amortization of the program rights is recorded using the straight-line method over the license period

or based on the number of showings. Amortization of broadcast program rights is included in station operating expense. Unamortized broadcast program rights are classified as current or non-current based on estimated usage in future years.

Treasury Stock

We have a Stock Buy-Back Program (the Buy-Back Program) which allows us to purchase up to \$30,000,000 of our Class A Common Stock. From its inception in 1998 through December 31, 2005, we have repurchased 1,473,689 shares of our Class A common stock for approximately \$22,600,000. Repurchases of shares of our Common Stock are recorded as Treasury Stock and result in a reduction of Stockholders Equity. During 2005, 2004 and 2003, we acquired 489,325 shares at an average price of \$15.19 per share, 419,700 shares at an average price of \$17.92 per share and 155,600 shares at an average price of \$18.32 per share, respectively. During 2005, we issued 326,254 shares of Treasury Stock in connection with our acquisition of broadcast properties and our employee stock purchase plan. During 2004, we issued

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Saga Communications, Inc.

Notes to Consolidated Financial Statements (Continued)

23,546 shares of Treasury Stock in connection with our employee stock purchase plan. During 2003, we issued 75,871 shares of Treasury Stock in connection with our acquisition of broadcast properties and our employee stock purchase plan.

Revenue Recognition

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

Time Brokerage Agreements

We have entered into Time Brokerage Agreements (TBA s) in certain markets. In a typical TBA, the Federal Communications Commission (FCC) licensee of a station makes available, for a fee, blocks of air time on its station to another party that supplies programming to be broadcast during that air time and sells their own commercial advertising announcements during the time periods specified. We account for TBA s under SFAS No. 13, Accounting for Leases and related interpretations. Revenue and expenses related to TBA s are included in the accompanying Consolidated Statements of Income.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Such costs amounted to approximately \$7,942,000, \$8,040,000 and \$7,108,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Income Taxes

We account for income taxes under SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Stock Based Compensation

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

SFAS No. 148 (SFAS 148), Accounting for Stock-Based Compensation Transition and Disclosure , which amends SFAS No. 123 (SFAS 123), Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS 123 s fair value method of accounting for stock-based employee compensation and requires disclosure of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148 does not require companies to account for employee stock options using the fair value method. Accordingly, we have continued to elect to account for employee stock options under APB 25 and its related interpretations.

SFAS 123 defines a fair value based method of accounting for an employee stock option or similar equity instrument. Pro forma information regarding net income and earnings per share is required by SFAS 148, and has been determined as if we had accounted for our employee stock options under the fair value method of that Statement. The fair value of our stock options were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005, 2004, and 2003: risk-free interest rates of 4.0%, 3.7% and 3.4%; a dividend yield of 0%; expected volatility of 30.1%, 31.1% and 32.2%, and a weighted average expected life of the options of 7 years, respectively. Under these assumptions, the weighted average fair value of an option to purchase one share granted in 2005, 2004 and 2003 was approximately \$5.79, \$7.87 and \$7.88, respectively.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

On December 19, 2005, with the Board of Directors and the Compensation Committee of the Board of Directors approval, we accelerated the vesting of (i) unvested options relating to 112,744 shares granted under our 1992 Stock Option Plan, and (ii) unvested options relating to 149,219 shares granted to non-executive officers under our 2003 Stock Option Plan. All such options were out-of-the-money as of the close of business on December 16, 2005 and became exercisable as of the close of business on December 19, 2005.

On December 19, 2005, with the Board of Directors and the Compensation Committee of the Board of Directors approval, we also offered to buy back and cancel all 879,121 options granted to executive officers under the Company's 2003 Stock Option Plan for the payment of \$0.10 per share, a price determined after consulting an independent valuation firm, in return for the cancellation of such options. All of such options were out-of-the-money as of the close of business on December 16, 2005. We recognized the \$87,912 associated with the cancellation of options as compensation expense in 2005.

The decision to accelerate the vesting of, and to buyback and cancel the above referenced respective stock options, was made primarily to reduce share-based compensation expense that otherwise likely would be recorded in future periods following our adoption in the first quarter of 2006 of Statement of Financial Accounting Standards No. 123(R) Share-Based Payment SFAS 123(R), see Recent Accounting Pronouncements for further discussion. The acceleration of vesting on unvested options did not impact the computation of earnings per share for the year ended December 31, 2005. Additional expense of \$2,692,000 (net of tax) associated with the acceleration and cancellation was included in the pro forma disclosure at December 31, 2005.

On December 16, 2004 the FASB issued SFAS No. 123(R) Share-Based Payment (SFAS 123(R)), which significantly changes the accounting for all share-based payments to employees, including grants of employee stock options, restricted share plans, performance based awards, stock appreciation rights, and employee stock purchase plans. SFAS 123(R) will require us to recognize in our financial statements compensation expense relating to share-based payment transactions using a fair-value based measurement method. SFAS 123(R) replaces SFAS 123 and supersedes APB 25 and is effective for our interim reporting period beginning July 1, 2005.

Effective January 1, 2006, we will adopt SFAS 123(R) in accounting for share-based awards under the modified prospective approach, which will have a significant impact on our results of operations. At December 31, 2005, substantially all of our options are vested, and the pretax expense expected to be recorded in 2006 related to stock options outstanding at December 31, 2005 is approximately \$300,000. We are unable to quantify the impact of the adoption of the pronouncement for future years, as the impact will be affected by many factors, including the future grants of share-based payments and future exercises of grants previously issued.

For purposes of the pro forma disclosures required under SFAS 148, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information is as follows:

| 2005 | 2004 | 2003 |
|--|-------------|-------------|
| (In thousands, except per share data) | | |

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| | | | |
|--|-----------|-----------|-----------|
| Net income, as reported | \$ 10,566 | \$ 15,842 | \$ 13,884 |
| Add back: stock based compensation cost, net of tax | 137 | 51 | 48 |
| Less: pro forma stock based compensation cost determined under fair value method, net of tax | (4,544) | (2,007) | (2,028) |
| Pro forma net income | \$ 6,159 | \$ 13,886 | \$ 11,904 |
| Pro forma earnings per share: | | | |
| Basic | \$.30 | \$.67 | \$.57 |
| Diluted | \$.30 | \$.66 | \$.56 |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)****Earnings Per Share**

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

| | Years Ended December 31, | | |
|---|--|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands, except per share data) | | |
| Numerator: | | | |
| Net income available to common stockholders | \$ 10,566 | \$ 15,842 | \$ 13,884 |
| Denominator: | | | |
| Denominator for basic earnings per share weighted average shares | 20,482 | 20,752 | 20,817 |
| Effect of dilutive securities: | | | |
| Stock options | 193 | 415 | 484 |
| Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions | 20,675 | 21,167 | 21,301 |
| Basic earnings per share | \$.52 | \$.76 | \$.67 |
| Diluted earnings per share | \$.51 | \$.75 | \$.65 |

Recent Accounting Pronouncements

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) No. SFAS 123R-3 Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards . This election provides for alternative transition methods to establish the beginning balance of the additional paid-in-capital pool (APIC pool). The purpose of the APIC pool is to determine the excess tax benefits related to share-based payment awards that will be available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123(R). The APIC pool will also have an impact on the computation of diluted earnings per share. We are currently evaluating the provisions of this pronouncement to determine the impact on our results of operations and financial position.

On March 30, 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 is an interpretation of FASB Statement 143, Asset Retirement Obligations, which was issued in June 2001. According to FIN 47, uncertainty about the timing and (or) method of settlement because they are conditional on a future event that may or may not be within the control of the entity should be factored into the measurement of the asset retirement obligation when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no

later than the end of fiscal years ending after December 15, 2005. The adoption of this pronouncement did not have a material impact on our results of operations and financial position.

On September 29, 2004, the Securities and Exchange Commission Staff (SEC) made an announcement regarding the Use of the Residual Method to Value Acquired Assets Other than Goodwill (Topic D-108). The SEC concluded that the use of the residual method does not comply with the requirements of FASB Statement No. 141 Business Combinations, and accordingly, should no longer be used. Instead, a direct value method should be used to determine the fair value of all intangible assets required to be recognized under Statement 141. For companies that have applied the residual value method to the valuation of intangible assets, including the use of the residual value method to test impairment of indefinite-lived intangible assets, Topic D-108 becomes effective in fiscal years beginning after December 15, 2004. Impairments of intangible assets recognized upon application of a direct value method by entities previously applying the residual method will be reported as a non-cash charge related to the cumulative effect of a change in accounting principle. The provisions of this Staff Announcement did not have a material impact on our results of operations and financial position.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)****2. Broadcast Licenses, Goodwill and Other Intangibles Assets**

We evaluate our FCC licenses for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. FCC licenses are evaluated for impairment at the market level using the 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. We also evaluate goodwill in each of its reporting units (markets) for impairment annually, or more frequently if certain circumstances are present. If the carrying amount of goodwill in a reporting unit is greater than the implied value of goodwill for that reporting unit determined from the estimated fair value of the reporting units, the carrying amount of goodwill in that reporting unit is reduced to its estimated fair value.

We utilize independent appraisals in testing FCC licenses and goodwill for impairment. These appraisals principally use the discounted cash flow methodology. This income approach consists of a quantitative model, which incorporates variables such as market advertising revenues, market revenue share projections, anticipated operating profit margins and various discount rates. The variables used in the analysis reflect historical station and advertising market growth trends, as well as anticipated performance and market conditions. Multiples of operating cash flow are also considered.

We completed the impairment tests for our broadcast licenses and goodwill as of October 1, 2005. As a result of the impairment tests we recorded an impairment charge of approximately \$1,168,000 related to our Jonesboro, AR radio market and Greenville, MS television market. We estimated the fair value of those markets intangible assets with the assistance of an independent third-party valuation company. We tested the broadcast licenses and goodwill for impairment as of October 1, 2004 and no impairment was indicated. See Note 13 for impairment charges by segment.

We evaluate amortizable intangible assets for recoverability when circumstances indicate impairment may have occurred, using an undiscounted cash flow methodology. If the future undiscounted cash flows for the intangible asset are less than net book value, then the net book value is reduced to the estimated fair value.

Broadcast licenses

We have recorded the changes to broadcast licenses for each of the years ended December 31, 2005 and 2004 as follows:

| | Gross Carrying Amount | Accumulated Amortization | Impairment Charges | Net Amount |
|------------------------------|--------------------------------------|-------------------------------------|-------------------------------|-----------------------|
| | (In thousands) | | | |
| Balance at December 31, 2003 | \$ 131,844 | \$ 8,187 | \$ | \$ 123,657 |
| Acquisitions | 6,453 | | | 6,453 |
| Balance at December 31, 2004 | \$ 138,297 | \$ 8,187 | \$ | \$ 130,110 |

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| | | | | |
|------------------------------|------------|----------|----------|------------|
| Acquisitions | 19,066 | | | 19,066 |
| Impairment charge | | | (251) | (251) |
| Balance at December 31, 2005 | \$ 157,363 | \$ 8,187 | \$ (251) | \$ 148,925 |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)****Goodwill**

We have recorded the changes to goodwill for each of the years ended December 31, 2005 and 2004 as follows:

| | Gross Carrying Amount | Accumulated Amortization | Impairment Charges | Net Amount |
|------------------------------|--------------------------------------|-------------------------------------|-------------------------------|-----------------------|
| | (In thousands) | | | |
| Balance at December 31, 2003 | \$ 43,930 | \$ 13,091 | \$ | \$ 30,839 |
| Acquisitions | 6,294 | | | 6,294 |
| Balance at December 31, 2004 | \$ 50,224 | \$ 13,091 | \$ | \$ 37,133 |
| Acquisitions | 12,546 | | | 12,546 |
| Impairment charge | | | (917) | (917) |
| Balance at December 31, 2005 | \$ 62,770 | \$ 13,091 | \$ (917) | \$ 48,762 |

Other Intangible Assets

We have recorded amortizable intangible assets at December 31, 2005 as follows:

| | Gross Carrying Amount | Accumulated Amortization | Net Amount |
|-------------------------------------|--------------------------------------|-------------------------------------|-----------------------|
| | (In thousands) | | |
| Non-competition agreements | \$ 4,565 | \$ 4,419 | \$ 146 |
| Favorable lease agreements | 5,849 | 5,023 | 826 |
| Other Intangibles | 1,498 | 1,310 | 188 |
| Total amortizable intangible assets | \$ 11,912 | \$ 10,752 | \$ 1,160 |

We have recorded amortizable intangible assets at December 31, 2004 as follows:

| Gross Carrying Amount | Accumulated Amortization | Net Amount |
|--------------------------------------|-------------------------------------|-----------------------|
|--------------------------------------|-------------------------------------|-----------------------|

| | (In thousands) | | |
|--|-----------------------|-----------------|-----------------|
| Non-competition agreements | \$ 4,565 | \$ 4,370 | \$ 195 |
| Favorable lease agreements | 5,733 | 4,831 | 902 |
| Other Intangibles | 100 | 100 | |
| Total amortizable intangible assets | \$ 10,398 | \$ 9,301 | \$ 1,097 |

Aggregate amortization expense for these intangible assets for the years ended December 31, 2005, 2004 and 2003, was \$1,452,000, \$342,000 and \$458,000, respectively. Our estimated annual amortization expense for the years ending December 31, 2006, 2007, 2008, 2009 and 2010 is approximately \$367,000, \$200,000, \$101,000, \$37,000 and \$37,000, respectively.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)****3. Total Comprehensive Income and Accumulated Other Comprehensive Income**

Total comprehensive income consists of:

| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Net income | \$ 10,566 | \$ 15,842 | \$ 13,884 |
| Accumulated other comprehensive income: | | | |
| Change in fair value of derivative instruments net of taxes of \$0, \$0 and \$250, respectively | | | 464 |
| Change in market value of securities net of taxes of \$1, \$19 and \$15, respectively | 2 | 31 | 29 |
| Gain realized on sale of securities, net of taxes of \$35 | (62) | | |
| Total comprehensive income | \$ 10,506 | \$ 15,873 | \$ 14,377 |

Accumulated comprehensive income consisted of marketable securities as follows (in thousands):

| | |
|---|-------|
| Balance at January 1, 2004 | \$ 29 |
| Change in market value of securities, net of \$19 taxes | 31 |
| Balance at December 31, 2004 | 60 |
| Change in market value of securities, net of \$1 taxes | 2 |
| Gain realized on sale of securities, net of taxes of \$35 | (62) |
| Balance at December 31, 2005 | \$ |

4. Long-Term Debt

Long-term debt consisted of the following:

| December 31, | |
|-----------------------|-------------|
| 2005 | 2004 |
| (In thousands) | |

Credit Agreement:

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| | | |
|------------------------------|------------|------------|
| Reducing revolver facility | \$ 147,850 | \$ 120,100 |
| Secured debt of affiliate | 1,061 | 1,061 |
| | 148,911 | 121,161 |
| Amounts paid within one year | 7,000 | |
| | \$ 141,911 | \$ 121,161 |

Future maturities of long-term debt are as follows:

| Year Ending December 31, | (In thousands) |
|-------------------------------------|-----------------------|
| 2006 | \$ 7,000 |
| 2007 | 850 |
| 2008 | 40,000 |
| 2009 | 51,061 |
| 2010 | 50,000 |
| Thereafter | |
| | \$ 148,911 |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

Our Credit Agreement is a \$200,000,000 reducing revolving line of credit maturing on July 29, 2010. Our indebtedness under the Credit Agreement is secured by a first priority lien on substantially all of our assets and of our subsidiaries, by a pledge of our subsidiaries' stock and by a guarantee of our subsidiaries. We have approximately \$52,150,000 of unused borrowing capacity under the Credit Agreement at December 31, 2005. In January 2006 we used available cash to pay down \$7,000,000 of outstanding debt.

On March 31, 2006, the Revolving Commitments (as defined in the Credit Agreement) will be permanently reduced quarterly in amounts ranging from 3.125% to 12.5% of the total Revolving Commitments in effect on March 31, 2006. Any outstanding balance under the Credit Agreement will be due on the maturity date of July 29, 2010. In addition, the Revolving Commitments shall be further reduced by specified percentages of Excess Cash Flow (as defined in the Credit Agreement) based on leverage ratios.

In May 2005, we amended the Credit Agreement to reduce the interest rate margin for LIBOR and the Agent bank's base rate. Interest rates under the Credit Agreement are payable, at our option, at alternatives equal to LIBOR at the reset date (4.563% at December 31, 2005) plus 0.75% to 1.625% (1.375% to 2.0% as of December 31, 2004) or the Agent bank's base rate plus 0% to 0.375% (0.125% to 0.75% as of December 31, 2004). The spread over LIBOR and the base rate vary from time to time, depending upon our financial leverage. We also pay quarterly commitment fees of 0.375% to 0.625% per annum on the unused portion of the Credit Agreement.

The Credit Agreement contains a number of financial covenants (all of which we were in compliance with at December 31, 2005) that, among other things, requires us to maintain specified financial ratios and impose certain limitations on us with respect to (i) the incurrence of additional indebtedness; (ii) acquisitions, except under specified conditions; (iii) the incurrence of additional liens, except those relating to capital leases and purchase money indebtedness; (iv) the disposition of assets; (v) the payment of cash dividends; and (vi) mergers, changes in business and management, investments and transactions with affiliates. The financial covenants become more constrictive over the life of the Credit Agreement. The Credit Agreement prohibits the payment of dividends without the banks' prior consent.

5. Supplemental Cash Flow Information

For the purposes of the statements of cash flows, cash and cash equivalents include temporary investments with maturities of three months or less.

| | Years Ended December 31, | | |
|----------------------------------|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Cash paid during the period for: | | | |
| Interest | \$ 8,032 | \$ 3,955 | \$ 4,077 |
| Income taxes | 3,506 | 5,872 | 4,670 |
| Non-cash transactions: | | | |
| Barter revenue | \$ 4,447 | \$ 3,755 | \$ 3,702 |

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| | | | |
|---------------------------------------|-------|-------|-------|
| Barter expense | 4,208 | 4,006 | 3,335 |
| Acquisition of property and equipment | 75 | 61 | 94 |

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Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

In conjunction with the acquisition of the net assets of broadcasting companies, debt and liabilities were assumed as follows:

| | Years Ended December 31, | | |
|-------------------------------|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Fair value of assets acquired | \$ 39,054 | \$ 14,359 | \$ 27,591 |
| Cash paid | (31,729) | (13,611) | (24,424) |
| Issuance of restricted stock | (4,588) | | (1,063) |
| Debt and liabilities assumed | \$ 2,737 | \$ 748 | \$ 2,104 |

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

| | December 31, | |
|---------------------------------|-----------------------|-------------|
| | 2005 | 2004 |
| | (In thousands) | |
| Deferred tax liabilities: | | |
| Property and equipment | \$ 7,724 | \$ 9,052 |
| Intangible assets | 19,334 | 14,942 |
| Prepaid expenses | 588 | |
| Total deferred tax liabilities | 27,646 | 23,994 |
| Deferred tax assets: | | |
| Allowance for doubtful accounts | 418 | 357 |
| Compensation | 1,389 | 1,201 |
| Other accrued liabilities | 230 | 273 |
| Loss carry forwards | 112 | 595 |
| | 2,149 | 2,426 |
| Less: valuation allowance | 83 | 455 |
| Total net deferred tax assets | 2,066 | 1,971 |

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| | | |
|---|-------------|-------------|
| Net deferred tax liabilities | \$ 25,580 | \$ 22,023 |
| Current portion of deferred tax assets | \$ 594 | \$ 1,060 |
| Non-current portion of deferred tax liabilities | (26,174) | (23,083) |
| Net deferred tax liabilities | \$ (25,580) | \$ (22,023) |

At December 31, 2005, we have state tax loss carry forwards of approximately \$2,343,000, which will expire from 2018 to 2022. A capital loss carry forward of approximately \$3,000 expired in 2005. During 2005, we utilized approximately \$1,109,000 of the capital loss carry forward and \$610,000 in state tax loss carry forwards and accordingly, the valuation allowances decreased by \$372,000. At December 31, 2005, the valuation allowance for net deferred tax assets relates to state loss carry forwards. SFAS No. 109 requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

The significant components of the provision for income taxes are as follows:

| | Years Ended December 31, | | |
|----------------|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Current: | | | |
| Federal | \$ 2,120 | \$ 5,725 | \$ 3,811 |
| State | 507 | 1,129 | 1,366 |
| Total current | 2,627 | 6,854 | 5,177 |
| Total deferred | 3,590 | 4,137 | 3,594 |
| | \$ 6,217 | \$ 10,991 | \$ 8,771 |

In addition, we realized tax benefits as a result of stock option exercises for the difference between compensation expense for financial statement and income tax purposes. These tax benefits were credited to additional paid-in capital in the amounts of approximately \$44,000, \$391,000 and \$257,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

The reconciliation of income tax at the U.S. federal statutory tax rates to income tax expense is as follows:

| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Tax at U.S. statutory rates | \$ 5,933 | \$ 9,391 | \$ 7,703 |
| State taxes, net of federal benefit | 755 | 1,624 | 1,419 |
| Other, net | (99) | 99 | 13 |
| Reduction of valuation allowance on loss carry forwards | (372) | (123) | (364) |
| | \$ 6,217 | \$ 10,991 | \$ 8,771 |

7. Stock Based Compensation

On May 9, 2005, our stockholders approved the 2005 Incentive Compensation Plan (the 2005 Plan) which replaces our 2003 Stock Option Plan (the 2003 Plan) as to future grants. The 2005 Plan extends through March 2015 and allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to officers and a selected number of employees. The number of shares of Common Stock that

may be issued under the 2005 Plan may not exceed 500,000 shares of Class B Common Stock, 1,500,000 shares of Class A Common Stock of which up to 500,000 shares of Class A Common Stock may be issued pursuant to incentive stock options and 500,000 Class A Common Stock issuable upon conversion of Class B Common Stock. Awards denominated in Class A Common Stock may be granted to any employee under the Plan. However, awards denominated in Class B Common Stock may only be granted to Edward K. Christian, President, Chief Executive Officer, Chairman of the Board of Directors, and the holder of 100% of the outstanding Class B Common Stock of the Corporation. Stock options granted under the 2005 Plan may be for terms not exceeding ten years from the date of grant and may not be exercised at a price which is less than 100% of the fair market value of shares at the date of grant.

Our 1992 Stock Option Plan (the 1992 Plan) expired in December 2002. In 2003, we adopted the 2003 Stock Option Plan (the 2003 Plan) pursuant to which our key employees, including directors who are employees, were eligible to receive grants of options to purchase our Class A Common Stock or Class B Common Stock. Options granted under the 2003 Plan were either incentive stock options (within the meaning of Section 422A of the Internal Revenue Code of 1986) or non-qualified options. Options for Class A

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Saga Communications, Inc.

Notes to Consolidated Financial Statements (Continued)

Common Stock could be granted to any employee of the Corporation. Options for Class B Common Stock could only be granted to Edward K. Christian, President, Chief Executive Officer, Chairman of the Board of Directors, and the holder of 100% of the outstanding Class B Common Stock of the Corporation. With the approval of the 2005 Plan, the 2003 Plan was terminated as to future grants therefore the shares available for future grants under the 2003 Plan are no longer available.

In 1997, we adopted the 1997 Non-Employee Director Stock Option Plan (the Directors Plan) and amended on December 19, 2005 pursuant to which our directors who are not our employees are eligible to receive options. Under the terms of the Directors Plan, on the last business day of January of each year during the term of the Directors Plan, in lieu of their directors' retainer for the previous year, each eligible director shall automatically be granted an option to purchase that number of our shares of Class A Common Stock equal to the amount of the retainer divided by the fair market value of our Common Stock on the last trading day of the December immediately preceding the date of grant less \$.01 per share. The option exercise price is \$.01 per share. At December 31, 2005, approximately 164,000 shares of common stock are reserved for issuance under the Directors Plan. Options granted under the Directors Plan are non-qualified stock options, shall be immediately vested and become exercisable at the written election of the director. The options expire on the earlier of (i) 10 years from the date of grant or (ii) the March 16th following the calendar year in which they first become exercisable. On January 31, 2006 a total of 13,242 options were issued under the Directors Plan in lieu of their directors' retainer for the year ended December 31, 2005.

We follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations, in accounting for our employee and non-employee director stock options. Under APB 25, when the exercise price of our employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Total compensation costs recognized in the income statement for stock based compensation awards to employees for the years ended December 31, 2005 was approximately \$88,000, (none in 2004 and 2003). Total Directors fees recognized in the income statement for stock based compensation awards for the years ended December 31, 2005, 2004 and 2003, was approximately \$144,000, \$78,000 and \$79,000, respectively.

During 2005 we issued 60,429 shares of restricted stock with the weighted-average grant date value of \$14.25 to certain key employees under the 2005 Plan. At December 31, 2005, these awards, net of forfeitures, aggregated 59,728 shares. These shares are nontransferable and subject to forfeiture as prescribed by the Plan. Upon granting of these awards, we charge unearned compensation to stockholders' equity for the market value at the date of grant and subsequently amortize over the periods during which the restrictions lapse, generally five years. During 2005 we recorded amortization of unearned compensation relating to restricted stock of approximately \$142,000.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

The following summarizes the stock option transactions for the 2005, 2003 and 1992 Plans for the three years ended December 31, 2005, 2004 and 2003:

| | Number of Options | Exercise Price per Share | Weighted Average Price per Share |
|--|------------------------------|-------------------------------------|---|
| Options outstanding at January 1, 2003 | 1,824,874 | \$ 1.39 to \$20.80 | \$ 12.44 |
| Granted | 1,006,016 | 19.22 | 19.22 |
| Exercised | (92,828) | 2.72 to 10.56 | 10.38 |
| Forfeited | (3,401) | 14.24 to 20.80 | 19.59 |
| Options outstanding at December 31, 2003 | 2,734,661 | \$ 1.39 to \$20.80 | \$ 14.99 |
| Granted | 101,153 | 19.31 | 19.31 |
| Exercised | (107,372) | 1.39 to 16.80 | 3.99 |
| Forfeited | (7,438) | 14.24 to 20.80 | 19.12 |
| Options outstanding at December 31, 2004 | 2,721,004 | \$ 1.39 to \$20.80 | \$ 15.58 |
| Granted | 271,941 | 13.80 to 14.70 | 14.25 |
| Exercised | (28,278) | 1.39 to 10.56 | 5.92 |
| Forfeited | (895,717) | 13.80 to 20.80 | 19.19 |
| Options outstanding at December 31, 2005 | 2,068,950 | \$ 5.83 to \$20.80 | \$ 13.97 |

The following summarizes the Directors Plan stock option transactions for the three years ended December 31, 2005:

| | Number of Options | Exercise Price per Share | Weighted Average Price per Share |
|--|------------------------------|-------------------------------------|---|
| Options outstanding at January 1, 2003 | 14,237 | \$.005 to \$.008 | \$.007 |
| Granted | 2,997 | .010 | .010 |
| Exercised | | | |
| Forfeited | | | |
| Options outstanding at December 31, 2003 | 17,234 | \$.005 to \$.010 | \$.008 |
| Granted | 4,277 | .010 | .010 |
| Exercised | | | |

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Forfeited

| | | | |
|--|----------|-------------------|---------|
| Options outstanding at December 31, 2004 | 21,511 | \$.005 to \$.010 | \$.008 |
| Granted | 4,751 | .010 | .010 |
| Exercised | (14,069) | .005 to .010 | .008 |
| Forfeited | | | |
| Options outstanding at December 31, 2005 | 12,193 | \$.005 to \$.010 | .008 |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

The following summarizes stock options exercisable and available for grant for the three years ended December 31, 2005:

| | The Plan | The Directors Plan |
|-------------------------------------|-----------------|---------------------------|
| Options exercisable at December 31: | | |
| 2005 | 1,800,164 | 12,193 |
| 2004 | 1,576,797 | 21,511 |
| 2003 | 1,311,326 | 17,234 |
| Available for grant at December 31: | | |
| 2005 | 2,171,486 | 163,917 |
| 2004 | 896,764 | 168,667 |
| 2003 | 993,984 | 172,944 |

Stock options outstanding in the 1992, 2003 and 2005 Plans at December 31, 2005 are summarized as follows:

| Exercise Price | Options Outstanding | Options Exercisable | Weighted Average Remaining Contractual Life |
|---------------------------------|----------------------------|----------------------------|--|
| \$5.83 | 9,762 | 9,762 | 0.5 |
| \$7.42 | 21,481 | 21,481 | 1.6 |
| \$10.56 | 709,178 | 709,178 | 2.6 |
| \$12.72 | 218,571 | 218,571 | 3.5 |
| \$13.80 | 133,361 | 0 | 9.4 |
| \$14.24 | 254,717 | 254,717 | 5.4 |
| \$14.70 | 135,425 | 0 | 9.5 |
| \$16.00 | 31,511 | 31,511 | 4.7 |
| \$16.80 | 186,487 | 186,487 | 4.4 |
| \$19.22 | 119,003 | 119,003 | 7.4 |
| \$19.31 | 97,271 | 97,271 | 8.4 |
| \$20.80 | 152,183 | 152,183 | 6.4 |
| | 2,068,950 | 1,800,164 | 4.9 |
| Weighted Average Exercise Price | \$ 13.97 | \$ 13.93 | |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

Stock options outstanding in the Directors Plan at December 31, 2005 are summarized as follows:

| Exercise Price | Options Outstanding | Options Exercisable | Weighted Average Remaining Contractual Life |
|------------------------------------|--------------------------------|--------------------------------|--|
| \$0.005 | 495 | 495 | 2.1 |
| \$0.006 | 1,644 | 1,644 | 3.1 |
| \$0.008 | 6,095 | 6,095 | 5.2 |
| \$0.010 | 3,959 | 3,959 | 7.7 |
| | 12,193 | 12,193 | 5.6 |
| Weighted Average Exercise Price | \$ 0.008 | \$ 0.008 | |

8. Employee Benefit Plans**401(k) Plan**

We have a defined contribution pension plan (401(k) Plan) that covers substantially all employees. Employees can elect to have a portion of their wages withheld and contributed to the plan. The 401(k) Plan also allows us to make a discretionary contribution. Total expense under the 401(k) Plan was approximately \$391,000, \$276,000 and \$312,000 in 2005, 2004 and 2003, respectively, of which approximately \$280,000, \$220,000 and \$245,000 represents our discretionary contributions in 2005, 2004 and 2003, respectively.

Employee Stock Purchase Plan

In 1999 our stockholders approved the Employee Stock Purchase Plan (ESPP) under which a total of 1,562,500 shares of our Class A Common Stock is eligible for sale to our employees. At December 31, 2005 approximately 1,438,000 shares are reserved for issuance under the ESPP. The ESPP was effective July 1, 1999. Each quarter, an eligible employee may elect to withhold up to 10 percent of his or her compensation up to a maximum of \$5,000 to purchase shares of our stock at a price equal to 85 percent of the fair value of the stock as of the last day of such quarter. The ESPP will terminate on the earlier of the issuance of 1,562,500 shares pursuant to the ESPP or December 31, 2008. There were 21,445, 23,546 and 20,131 shares issued under the ESPP in 2005, 2004 and 2003, respectively. Compensation expense recognized related to the ESPP for the years ended December 31, 2005, 2004 and 2003 was approximately \$45,000, \$63,000 and \$56,000, respectively.

Deferred Compensation Plan

In 1999 we established a Nonqualified Deferred Compensation Plan which allows officers and certain management employees to annually elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred and any earnings thereon. Deferred compensation expense for the years ended December 31, 2005, 2004 and 2003 was approximately \$302,000, \$248,000 and \$296,000, respectively. We have invested in company-owned life insurance policies to assist in funding these programs. The cash surrender values of these policies are in a rabbi trust and are recorded as our assets.

9. 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 costs were allocated to the acquired assets and assumed liabilities based on their estimated fair values as

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Saga Communications, Inc.

Notes to Consolidated Financial Statements (Continued)

of the acquisition dates. The excess of the consideration paid over the estimated fair value of net assets acquired have been recorded as goodwill, which is deductible for tax purposes.

Pending Acquisitions

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

2005 Acquisitions and Dispositions

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

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

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

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

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

2004 Acquisitions and Dispositions

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

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

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

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

2003 Acquisitions, Time Brokerage Agreements, Shared Services Agreements and Dispositions

On March 7, 2003, we entered into an agreement of understanding with Surtsey Media, LLC (an affiliate of Surtsey Productions, Inc. Surtsey), whereby we have guaranteed up to \$1,250,000 of the debt that Surtsey Media, LLC has incurred in closing on the acquisition of a construction permit for KFJX-TV station in Pittsburg, Kansas. At December 31, 2005, there was \$1,061,000 outstanding under this agreement. The station, a new full power Fox affiliate, went on the air for the first time on October 18, 2003. In consideration for our guarantee, Surtsey Media, LLC has entered into various agreements with us relating to the station, including a Shared Services Agreement, Technical Services Agreement, Agreement for the Sale of Commercial

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Saga Communications, Inc.

Notes to Consolidated Financial Statements (Continued)

Time and Broker Agreement. Surtsey is a multi-media company that is 100% owned by the daughter of Edward K. Christian, our principal stockholder, President and CEO.

On March 11, 2003, we acquired an AM radio station (WOXL-AM) serving the Asheville, North Carolina market for approximately \$350,000.

On March 28, 2003, we acquired an FM radio station (WODB-FM) serving the Columbus, Ohio market for approximately \$10,432,000. We began operating this station under the terms of a TBA on January 1, 2003. In conjunction with this transaction we sold our AM radio station (WVKO-AM) serving the Columbus, Ohio market for approximately \$941,000. The buyer began brokering time on WVKO under the terms of a TBA on January 1, 2003. We recognized a gain on the disposal of this station of approximately \$425,000.

On April 1, 2003, we acquired an FM radio station (WINQ-FM) in the Winchendon, Massachusetts market for approximately \$290,000 plus an additional \$500,000 if within five years of closing we obtain approval from the FCC for a city of license change. The radio station was owned by a company in which a member of our Board of Directors has a 26% beneficial ownership interest, which was disclosed to our Board prior to its approval of the transaction. The interested director did not participate in voting on this transaction when it came before the Board. The purchase price was determined on an arm's length basis. We began operating this station under the terms of a TBA on February 1, 2003, simulcasting WKBK-AM in Keene, New Hampshire.

On April 1, 2003, we sold an AM radio station (WLLM-AM) serving the Lincoln, Illinois market for approximately \$275,000. We recognized a gain on the sale of the station of approximately \$29,000.

On October 1, 2003, we acquired two FM radio stations (WJZA-FM Lancaster, Ohio and WJZK-FM Richwood, Ohio) serving the Columbus, Ohio market for approximately \$13,242,000 including approximately \$1,063,000 of our Class A common stock, plus up to an additional \$2,000,000 if we obtain approval from the FCC for a city of license change.

On November 17, 2003, we acquired an AM radio station (WVAE-AM) serving the Portland, Maine market for approximately \$386,000. We began operating this station under the terms of a TBA on August 1, 2003.

On December 1, 2003, we acquired an FM and AM radio station (WQEL-FM and WBCO-AM) serving the Bucyrus, Ohio market for approximately \$2,375,000. We began operating these stations under the terms of a TBA on October 1, 2003.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)****Condensed Consolidated Balance Sheet of 2005 Acquisitions**

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

**Saga Communications, Inc.
Condensed Consolidated Balance Sheets
of 2005 and 2004 Acquisitions**

| | Acquisitions in | |
|---|------------------------|-------------|
| | 2005 | 2004 |
| | (In thousands) | |
| Assets Acquired: | | |
| Current assets | \$ 2,542 | \$ 650 |
| Property and equipment | 4,783 | 848 |
| Other assets: | | |
| Broadcast licenses Radio segment | 18,909 | 6,453 |
| Broadcast licenses Television segment | 157 | |
| Goodwill Radio segment | 12,479 | 6,294 |
| Goodwill Television segment | 67 | |
| Other intangibles, deferred costs and investments | 117 | 114 |
| Total other assets | 31,729 | 12,861 |
| Total assets acquired | 39,054 | 14,359 |
| Liabilities Assumed: | | |
| Current liabilities | 2,737 | 748 |
| Total liabilities assumed | 2,737 | 748 |
| Net assets acquired | \$ 36,317 | \$ 13,611 |

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

The following unaudited pro forma results of our operations for the years ended December 31, 2005 and 2004 assume the acquisitions and dispositions in 2005 and 2004 occurred as of January 1, 2004. The pro forma results give effect to certain adjustments, including depreciation, amortization of intangible assets, increased interest expense on acquisition

debt and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations, which would

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

actually have occurred had the combinations been in effect on the dates indicated, or which may occur in the future.

| | Years Ended December 31, | |
|--|--|-------------|
| | 2005 | 2004 |
| | (In thousands, except per share data) | |
| Consolidated Results of Operations: | | |
| Net operating revenue | \$ 141,803 | \$ 142,743 |
| Station operating expense | 105,368 | 101,741 |
| Corporate general and administrative | 8,174 | 8,343 |
| Impairment of intangible assets | 1,168 | |
| Operating income | 27,093 | 32,659 |
| Interest expense | 7,806 | 5,854 |
| Other | 2,653 | (1) |
| Income tax expense | 6,160 | 10,988 |
| Net income | \$ 10,474 | \$ 15,818 |
| Basic earnings per share | \$ 0.51 | \$.75 |
| Diluted earnings per share | \$ 0.50 | \$.74 |

| | 2005 | 2004 |
|-----------------------------------|-----------------------|-------------|
| | (In thousands) | |
| Radio Broadcasting Segment | | |
| Net operating revenue | \$ 126,610 | \$ 128,290 |
| Station operating expense | 91,924 | 88,880 |
| Impairment of intangible assets | 890 | |
| Operating income | \$ 33,796 | \$ 39,410 |

| | 2005 | 2004 |
|--|-----------------------|-------------|
| | (In thousands) | |
| Television Broadcasting Segment | | |

| | | |
|---------------------------------|-----------|-----------|
| Net operating revenue | \$ 15,193 | \$ 14,453 |
| Station operating expense | 13,444 | 12,861 |
| Impairment of intangible assets | 278 | |
| Operating income | \$ 1,471 | \$ 1,592 |

Reconciliation of Pro Forma Segment Operating Income to Pro Forma Consolidated Operating Income

| | Radio | Television | Corporate and Other (In thousands) | Consolidated |
|---|--------------|-------------------|---|---------------------|
| Twelve Months Ended December 31, 2005: | | | | |
| Net operating revenue | \$ 126,610 | \$ 15,193 | \$ | \$ 141,803 |
| Station operating expense | 91,924 | 13,444 | | 105,368 |
| Corporate general and administrative | | | 8,174 | 8,174 |
| Impairment of intangible assets | 890 | 278 | | 1,168 |
| Operating income (loss) | \$ 33,796 | \$ 1,471 | \$ (8,174) | \$ 27,093 |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

| | Radio | Television | Corporate and Other | Consolidated |
|---|-----------------------|-------------------|--------------------------------|---------------------|
| | (In thousands) | | | |
| Twelve Months Ended December 31, 2004: | | | | |
| Net operating revenue | \$ 128,290 | \$ 14,453 | \$ | \$ 142,743 |
| Station operating expense | 88,880 | 12,861 | | 101,741 |
| Corporate general and administrative | | | 8,343 | 8,343 |
| Operating income (loss) | \$ 39,410 | \$ 1,592 | \$ (8,343) | \$ 32,659 |

10. Related Party Transactions**Acquisition of Stations from Affiliates of Directors**

On April 1, 2003, we acquired an FM radio station (WINQ-FM) in the Winchendon, Massachusetts market for approximately \$290,000 plus an additional \$500,000 if within five years of closing we obtain approval from the FCC for a city of license change. The radio station was owned by a company in which Robert Maccini, a member of our Board of Directors, is an officer and director of, and has a 33% voting ownership interest, and 26% non-voting ownership interest.

The ownership interest of Mr. Maccini was disclosed to our Board prior to its approval of the transaction. Mr. Maccini did not participate in voting on this transaction when it came before the Board. The purchase price was determined on an arm's length basis. We began operating this station under the terms of a TBA on February 1, 2003.

Commissions Paid to Affiliates of Directors

On March 1, 2004, in connection with our acquisition of the Minnesota News and Farm Networks for approximately \$3,250,000, a company controlled by Gary Stevens, a member of our Board of Directors, received a brokerage commission of approximately \$122,000 from the seller.

Principal Stockholder Employment Agreement

In March 2002, we entered into an employment agreement with Edward K. Christian our principal stockholder, President and CEO. This agreement was effective April 1, 2002 and expires March 31, 2009. The agreement provides for certain compensation, death, disability and termination benefits, as well as the use of an automobile. The annual base salary under the agreement was \$450,000 per year effective April 1, 2002, \$500,000 per year effective January 1, 2003 and subject to annual cost of living increases effective January 1, 2004 (\$530,000 effective January 1, 2005). The agreement also provides that he is eligible for stock options to be awarded at the discretion of our Board of Directors, and annual bonuses in such amounts as shall be determined pursuant to the terms of the Chief Executive Officer Annual Incentive Plan. The agreement also provides that, upon the consummation of our sale or transfer of control, his employment will be terminated and we will pay him an amount equal to five times the average of his total annual compensation for the preceding three years, plus an additional amount as is necessary for applicable income

taxes related to the payment. For the three years ended December 31, 2005 his average annual compensation, as defined by the employment agreement, was approximately \$943,000.

Transactions with Affiliate and Other Related Party Transactions

In May 1999 we entered into a TBA with Surtsey Productions, a multimedia company owned by Edward K. Christian's daughter. Surtsey owns a television station KVCT in Victoria, Texas. We operate KVCT under the terms of a TBA with Surtsey. Under the FCC's ownership rules we are prohibited from owning or having an attributable or cognizable interest in this station. Under the 16 year TBA, we pay fees of \$3,000 per month plus accounting fees and reimbursement of expenses actually incurred in operating the station. Surtsey

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Saga Communications, Inc.

Notes to Consolidated Financial Statements (Continued)

leases office space in a building owned by us, and paid us rent of approximately \$21,000 during the year ended December 31, 2005 and \$33,000 during each of the years ended December 31, 2004 and 2003.

In 2003 we entered into an agreement of understanding with Surtsey, whereby we have guaranteed up to \$1,250,000 of debt incurred by Surtsey to acquire the broadcast license for KFJX-TV station in Pittsburg, Kansas, a full power FOX affiliate. At December 31, 2005 there was \$1,061,000 outstanding under this agreement. Under the FCC's ownership rules, we are prohibited from owning this station. We do not have any recourse provision in connection with our guarantee that would enable us to recover any amounts paid under the guarantee. As a result, at December 31, 2005 we have recorded \$1,061,000 in debt and \$1,061,000 in intangible assets, primarily broadcast licenses. In consideration for our guarantee, Surtsey has entered into various agreements with us relating to the station, including a Shared Services Agreement, Technical Services Agreement, Agreement for the Sale of Commercial Time, Option Agreement and Broker Agreement. We paid fees under the agreements during 2005 of approximately \$4,100 per month (\$4,000 per month during 2004) plus accounting fees and reimbursement of expenses actually incurred in operating the station.

11. Common Stock

Dividends. Stockholders are entitled to receive such dividends as may be declared by our Board of Directors out of funds legally available for such purpose. However, no dividend may be declared or paid in cash or property on any share of any class of Common Stock unless simultaneously the same dividend is declared or paid on each share of the other class of common stock. In the case of any stock dividend, holders of Class A Common Stock are entitled to receive the same percentage dividend (payable in shares of Class A Common Stock) as the holders of Class B Common Stock receive (payable in shares of Class B Common Stock).

Voting Rights. Holders of shares of Common Stock vote as a single class on all matters submitted to a vote of the stockholders, with each share of Class A Common Stock entitled to one vote and each share of Class B Common Stock entitled to ten votes, except (i) in the election for directors, (ii) with respect to any going private transaction between the Company and the principal stockholder, and (iii) as otherwise provided by law.

In the election of directors, the holders of Class A Common Stock, voting as a separate class, are entitled to elect twenty-five percent, or two, of our directors. The holders of the Common Stock, voting as a single class with each share of Class A Common Stock entitled to one vote and each share of Class B Common Stock entitled to ten votes, are entitled to elect the remaining directors. The Board of Directors consisted of seven members at December 31, 2005. Holders of Common Stock are not entitled to cumulative votes in the election of directors.

The holders of the Common Stock vote as a single class with respect to any proposed going private transaction with the principal stockholder or an affiliate of the principal stockholder, with each share of each class of Common Stock entitled to one vote per share.

Under Delaware law, the affirmative vote of the holders of a majority of the outstanding shares of any class of common stock is required to approve, among other things, a change in the designations, preferences and limitations of the shares of such class of common stock.

Liquidation Rights. Upon our liquidation, dissolution, or winding-up, the holders of Class A Common Stock are entitled to share ratably with the holders of Class B Common Stock in accordance with the number of shares held in all assets available for distribution after payment in full of creditors.

Other Provisions. Each share of Class B Common Stock is convertible, at the option of its holder, into one share of Class A Common Stock at any time. One share of Class B Common Stock converts automatically into one share of Class A Common Stock upon its sale or other transfer to a party unaffiliated with the principal stockholder or, in the event of a transfer to an affiliated party, upon the death of the transferor.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)****12. Commitments and Contingencies****Leases**

We lease certain land, buildings and equipment under noncancellable operating leases. Rent expense for the year ended December 31, 2005 was \$1,720,000 (\$1,633,000 and \$1,564,000 for the years ended December 31, 2004 and 2003, respectively). Minimum annual rental commitments under noncancellable operating leases consisted of the following at December 31, 2005 (in thousands):

| | |
|------------|----------|
| 2006 | \$ 1,554 |
| 2007 | 1,156 |
| 2008 | 846 |
| 2009 | 493 |
| 2010 | 339 |
| Thereafter | 2,829 |
| | \$ 7,217 |

Broadcast Program Rights

We have entered into contracts for broadcast program rights that expire at various dates during the next five years. The aggregate minimum payments relating to these commitments consisted of the following at December 31, 2005 (in thousands):

| | |
|--|----------|
| 2006 | \$ 560 |
| 2007 | 541 |
| 2008 | 485 |
| 2009 | 407 |
| 2010 | 227 |
| Thereafter | 87 |
| | \$ 2,307 |
| Amounts due within one year (included in accounts payable) | 560 |
| | \$ 1,747 |

Contingencies

In 2003 in connection with our acquisition of an FM radio station (WINQ-FM) in the Winchendon, Massachusetts market for approximately \$290,000 we entered into an agreement whereby we would pay the seller an additional \$500,000 if within five years of closing if we obtain approval from the FCC for a city of license change.

In 2003 in connection with our acquisition of two FM radio stations (WJZA-FM Lancaster, Ohio and WJZK-FM Richwood, Ohio) serving the Columbus, Ohio market for approximately \$13,242,000 including approximately \$1,063,000 of our Class A common stock, we entered into an agreement whereby we would pay the seller up to an additional \$2,000,000 if we obtain approval from the FCC for a city of license change.

13. 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.

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

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

| | Radio | Television | Corporate and Other | Consolidated |
|--------------------------------------|--------------|-------------------|--------------------------------|---------------------|
| Year ended December 31, 2005: | | | | |
| Net operating revenue | \$ 125,597 | \$ 15,193 | \$ | \$ 140,790 |
| Station operating expense | 90,967 | 13,444 | | 104,411 |
| Corporate general and administrative | | | 8,174 | 8,174 |
| Impairment of intangible assets | 890 | 278 | | 1,168 |
| Operating income (loss) | \$ 33,740 | \$ 1,471 | \$ (8,174) | \$ 27,037 |
| Depreciation and amortization | \$ 7,075 | \$ 1,766 | \$ 199 | \$ 9,040 |
| Total assets at December 31, 2005 | \$ 266,604 | \$ 31,092 | \$ 21,169 | \$ 318,865 |
| Capital additions | \$ 7,414 | \$ 2,285 | \$ 727 | \$ 10,426 |
| Goodwill, net | \$ 48,591 | \$ 171 | \$ | \$ 48,762 |
| Broadcast licenses, net | \$ 136,736 | \$ 12,189 | \$ | \$ 148,925 |

| | Radio | Television | Corporate and Other | Consolidated |
|--------------------------------------|--------------|-------------------|--------------------------------|---------------------|
| Year ended December 31, 2004: | | | | |
| Net operating revenue | \$ 120,191 | \$ 14,453 | \$ | \$ 134,644 |
| Station operating expense | 82,053 | 12,861 | | 94,914 |
| Corporate general and administrative | | | 8,343 | 8,343 |
| Operating income (loss) | \$ 38,138 | \$ 1,592 | \$ (8,343) | \$ 31,387 |
| Depreciation and amortization | \$ 5,337 | \$ 1,717 | \$ 198 | \$ 7,252 |
| Total assets at December 31, 2004 | \$ 231,947 | \$ 31,277 | \$ 16,930 | \$ 280,154 |

| | | | | |
|-------------------------|------------|-----------|--------|------------|
| Capital additions | \$ 7,755 | \$ 3,064 | \$ 279 | \$ 11,098 |
| Goodwill, net | \$ 37,002 | \$ 131 | \$ | \$ 37,133 |
| Broadcast licenses, net | \$ 117,827 | \$ 12,283 | \$ | \$ 130,110 |

Table of Contents**Saga Communications, Inc.****Notes to Consolidated Financial Statements (Continued)**

| | Radio | Television | Corporate and Other | Consolidated |
|--------------------------------------|--------------|-------------------|--------------------------------|---------------------|
| Year ended December 31, 2003: | | | | |
| Net operating revenue | \$ 109,065 | \$ 12,232 | \$ | \$ 121,297 |
| Station operating expense | 74,914 | 11,169 | | 86,083 |
| Corporate general and administrative | | | 6,649 | 6,649 |
| Operating income (loss) | \$ 34,151 | \$ 1,063 | \$ (6,649) | \$ 28,565 |
| Depreciation and amortization | \$ 5,229 | \$ 1,574 | \$ 199 | \$ 7,002 |
| Total assets at December 31, 2003 | \$ 215,135 | \$ 29,906 | \$ 17,302 | \$ 262,343 |
| Capital additions | \$ 4,403 | \$ 3,583 | \$ 132 | \$ 8,118 |
| Goodwill, net | \$ 30,708 | \$ 131 | \$ | \$ 30,839 |
| Broadcast licenses, net | \$ 111,374 | \$ 12,283 | \$ | \$ 123,657 |

14. Quarterly Results of Operations (Unaudited)

| | March 31, | | June 30, | | September 30, | | December 31, | |
|--------------------------------------|--|-------------|-----------------|-------------|----------------------|-------------|---------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | (In thousands, except per share data) | | | | | | | |
| Net operating revenue | \$ 31,830 | \$ 29,173 | \$ 37,554 | \$ 35,127 | \$ 35,961 | \$ 34,262 | \$ 35,445 | \$ 36,082 |
| Station operating expenses | 24,698 | 22,185 | 26,656 | 23,733 | 26,110 | 24,006 | 26,947 | 24,990 |
| Corporate general and administrative | 1,778 | 1,732 | 2,348 | 2,279 | 1,934 | 1,927 | 2,114 | 2,405 |
| Impairment of intangible assets | | | | | | | 1,168 | |
| Operating income | 5,354 | 5,256 | 8,550 | 9,115 | 7,917 | 8,329 | 5,216 | 8,687 |
| Other expenses: | | | | | | | | |
| Interest expense | 1,623 | 1,095 | 1,806 | 1,085 | 2,082 | 1,036 | 2,075 | 1,306 |
| Other | 67 | 8 | 1,471 | 65 | (35) | 210 | 1,165 | (251) |
| Income before income tax | 3,664 | 4,153 | 5,273 | 7,965 | 5,870 | 7,083 | 1,976 | 7,632 |

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| | | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| Income tax provision | 1,499 | 1,622 | 2,201 | 3,104 | 2,430 | 2,765 | 87 | 3,500 |
| Net income | \$ 2,165 | \$ 2,531 | \$ 3,072 | \$ 4,861 | \$ 3,440 | \$ 4,318 | \$ 1,889 | \$ 4,132 |
| Basic earnings per share | \$.10 | \$.12 | \$.15 | \$.23 | \$.17 | \$.21 | \$.09 | \$.20 |
| Weighted average common shares | 20,631 | 20,809 | 20,388 | 20,816 | 20,453 | 20,750 | 20,459 | 20,635 |
| Diluted earnings per share | \$.10 | \$.12 | \$.15 | \$.23 | \$.17 | \$.20 | \$.09 | \$.20 |
| Weighted average common and common equivalent shares | 20,941 | 21,281 | 20,596 | 21,285 | 20,631 | 21,116 | 20,546 | 20,983 |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 7, 2006.

SAGA COMMUNICATIONS, INC.

By: /s/ Edward K. Christian

Edward K. Christian
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 7, 2006.

Signatures

| | |
|--|--|
| /s/ Edward K. Christian Edward K. Christian | President, Chief Executive Officer and Chairman of the Board |
| /s/ Samuel D. Bush Samuel D. Bush | Vice President, Chief Financial Officer and Treasurer |
| /s/ Catherine A. Bobinski Catherine A. Bobinski | Vice President, Corporate Controller and Chief Accounting Officer |
| /s/ Donald J. Alt Donald J. Alt | Director |
| /s/ Brian W. Brady Brian W. Brady | Director |
| /s/ Clarke Brown Clarke Brown | Director |
| /s/ Jonathan Firestone Jonathan Firestone | Director |
| /s/ Robert J. Maccini Robert J. Maccini | Director |
| /s/ Gary Stevens Gary Stevens | Director |

Table of Contents**EXHIBIT INDEX**

| Exhibit No. | Description |
|--------------------|---|
| 3(a) | 10 Second Restated Certificate of Incorporation, restated as of December 12, 2003. |
| 3(b) | 11 Bylaws, as amended March 12, 2004. |
| 4(a) | 1 Plan of Reorganization. |
| 4(b) | 6 Credit Agreement dated as of March 28, 2001 between the Company and Fleet National Bank, as Agent for the lenders and The Bank of New York, as syndication agent. |
| 4(c) | 9 Credit Agreement dated as of July 29, 2003 between the Company and Union Bank of California, as Syndication Agent, Fleet National Bank as Documentation Agent and The Bank of New York as Administrative Agent. |
| 10(a) | 7 Employment Agreement of Edward K. Christian dated as of April 1, 2002. |
| 10(b) | 3 Saga Communications, Inc. 1992 Stock Option Plan, as amended. |
| 10(c) | 1 Summary of Executive Insured Medical Reimbursement Plan. |
| 10(d) | 2 Saga Communications, Inc. 1997 Non-Employee Director Stock Option Plan. |
| 10(d)(1) | 12 Form of Stock Option Agreement for Participants in the Saga Communications, Inc 1997 Non-Employee Director Stock Option Plan. |
| 10(e)(1) | 1 Promissory Note of Edward K. Christian dated December 10, 1992. |
| 10(e)(2) | 4 Amendment to Promissory Note of Edward K. Christian dated December 8, 1998. |
| 10(e)(3) | 5 Loan Agreement and Promissory Note of Edward K. Christian dated May 5, 1999. |
| 10(f) | 8 Saga Communications, Inc. 2003 Employee Stock Option Plan. |
| 10(g) | 14 Summary of Chief Executive Officer Annual Incentive Plan. |
| 10(h) | 15 Saga Communications, Inc. 2005 Incentive Compensation Plan. |
| 10(i) | 17 Summary of Non-Employee Directors Compensation. |
| 10(j) | 16 Form of Stock Option Agreement Restricted Stock for Participants in the Saga Communications, Inc. 2005 Incentive Compensation Plan |
| 10(k) | 16 Form of Stock Option Agreement Non-Qualified for Participants in the Saga Communications, Inc. 2005 Incentive Compensation Plan |
| 10(l) | 16 Form of Stock Option Agreement Incentive Stock Option for Participants in the Saga Communications, Inc. 2005 Incentive Compensation Plan |
| 10(m) | 13 Amendments to 1997 Non-Employee Director Stock Option Plan. |
| 10(n) | * Form of Stock Option Cancellation Agreement |
| 21 | * Subsidiaries. |
| 23.1 | * Consent of Ernst & Young LLP. |
| 31.1 | * Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | * Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | * Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Rule 13-14(b) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Denotes executive compensation plan or arrangement.

* Filed herewith.

- 1 Exhibit filed with the Company's Registration Statement on Form S-1 (File No. 33-47238) incorporated by reference herein.
- 2 Exhibit filed with the Company's Form 10-Q for the quarter ended June 30, 1997 incorporated by reference herein.

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- 3 Exhibit filed with the Company s Form 10-K for the year ended December 31, 1997 incorporated by reference herein.
- 4 Exhibit filed with the Company s Form 10-K for the year ended December 31, 1998 incorporated by reference herein.
- 5 Exhibit filed with the Company s Form 10-K for the year ended December 31, 1999 incorporated by reference herein.
- 6 Exhibit filed with the Company s Form 10-K for the year ended December 31, 2000 incorporated by reference herein.
- 7 Exhibit filed with the Company s Form 10-K for the year ended December 31, 2001 incorporated by reference herein.
- 8 Exhibit filed with the Company s Registration Statement on Form S-8 (File No. 333-107686) incorporated by reference herein.
- 9 Exhibit filed with the Company s Form 10-Q for the quarter ended June 30, 2003 incorporated by reference herein.
- 10 Exhibit filed with the Company s Registration Statement on Form 8-A (File No. 001-11588) incorporated by reference herein.
- 11 Exhibit filed with the Company s Form 10-K for the year ended December 31, 2003 incorporated by reference herein.
- 12 Exhibit filed with the Company s Form 8-K filed on February 4, 2005 and incorporated by reference herein.
13. Exhibit filed with the Company s Form 8-K filed on December 23, 2005 and incorporated by reference herein.
14. Exhibit filed with the Company s Form 8-K filed on March 16, 2005 and incorporated by reference herein.
- 15 Exhibit filed with the Company s 2005 Proxy Statement filed on April 15, 2005 and incorporated by reference herein.
- 16 Exhibit filed with the Company s Form 10-Q for the quarter ended June 30, 2005 incorporated by reference herein.
- 17 Exhibit filed with the Company s Form 8-K filed on June 29, 2005 and incorporated by reference herein.