SAGA COMMUNICATIONS INC
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period ended March 31, 2018

or

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

For the transition period from __________ to

Commission file number 1-11588

Saga Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware **38-3042953**

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

(313) 886-7070

(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares of the registrant's Class A Common Stock, $.01 par value, and Class B Common Stock, $.01 par value, outstanding as of May 7, 2018 was 5,034,751 and 898,633, respectively.

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EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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PART I — FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$47,794	$ 53,030
Accounts receivable, net	16,744	19,307
Prepaid expenses and other current assets	2,377	2,517
Barter transactions	1,735	1,320
Total current assets	68,650	76,174
Property and equipment	135,805	135,856
Less accumulated depreciation	79,485	79,621
Net property and equipment	56,320	56,235
Other assets:		
Broadcast licenses, net	93,259	93,259
Goodwill	15,558	15,558
Other intangibles, deferred costs and investments, net	7,291	7,543
	$241,078	$ 248,769
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,586	$ 2,206
Payroll and payroll taxes	5,173	7,836
Dividend payable	—	6,529
Other accrued expenses	3,089	3,243
Barter transactions	1,596	1,091
Total current liabilities	12,444	20,905
Deferred income taxes	21,382	21,072
Long-term debt	25,000	25,000
Other liabilities	2,331	2,327

Total liabilities	61,157	69,304
Commitments and contingencies	—	—
Stockholders’ equity:		
Common stock	76	76
Additional paid-in capital	63,146	62,675
Retained earnings	151,353	151,608
Treasury stock	(34,654)	(34,894)
Total stockholders’ equity	179,921	179,465
	$241,078	$ 248,769

Note: The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
	(In thousands, except per share data)	
Net operating revenue	$ 28,009	$ 26,155
Station operating expenses	23,397	21,340
Corporate general and administrative	2,544	2,863
Other operating income, net	(251)	(21)
Operating income from continuing operations	2,319	1,973
Interest expense	219	208
Other income	(89)	—
Income from continuing operations before income tax expense	2,189	1,765
Income tax expense	660	718
Income from continuing operations, net of tax	1,529	1,047
Income from discontinued operations, net of tax (Note 6)	—	891
Net income	$ 1,529	$ 1,938
Basic Earnings per share:		
From continuing operations	$ 0.26	$ 0.18
From discontinued operations	—	0.15
Basic earnings per share	$ 0.26	$ 0.33
Weighted average common shares	5,842	5,790
Diluted Earnings per share:		
From continuing operations	$ 0.26	$ 0.18
From discontinued operations	—	0.15
Diluted earnings per share	$ 0.26	$ 0.33
Weighted average common and common equivalent shares	5,842	5,802
Dividends declared per share	$ 0.30	$ 0.30

Note: Certain prior period amounts have been reclassified to conform to the current year presentation.

See notes to unaudited condensed consolidated financial statements.

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	$ 4,372	$ 5,455
Cash flows from investing activities:		
Acquisition of property and equipment	(1,498)	(1,439)
Other investing activities	294	(76)
Net cash used in investing activities	(1,204)	(1,515)
Cash flows from financing activities:		
Cash dividends paid	(8,311)	—
Purchase of treasury shares	(93)	—
Net cash used in financing activities	(8,404)	—
Net (decrease) increase in cash and cash equivalents	(5,236)	3,940
Cash and cash equivalents, beginning of period	53,030	26,640
Cash and cash equivalents, end of period	$ 47,794	$ 30,580

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

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

In our opinion, the accompanying financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of March 31, 2018 and the results of operations for the three months ended March 31, 2018 and 2017. Results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

We own or operate broadcast properties in 26 markets, including 75 FM and 33 AM radio stations.

On May 9, 2017 the Company entered into an agreement to sell the Joplin, Missouri and Victoria, Texas television stations. The disposition closed on September 1, 2017. The historical results of operations for the television stations are presented in discontinued operations for all periods presented (see Note 6). Unless indicated otherwise, the information in the notes to the accompanying unaudited condensed consolidated financial statements relates to the Company's continuing operations. As a result of the Company's television stations sale, the Company only has one reportable segment at March 31, 2018.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Saga Communications, Inc. Annual Report on Form 10-K for the year ended December 31, 2017.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2018, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Earnings Per Share Information

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

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

	Three Months Ended March 31,	
	2018	**2017**
	(In thousands, except per share data)	
Numerator:		
Income from continuing operations	$1,529	$1,047
Less: Income allocated to unvested participating securities	26	19
Income from continuing operations available to common stockholders	$1,503	$1,028
Income from discontinued operations	$—	$891
Less: Income allocated to unvested participating securities	—	16
Income from discontinued operations available to common stockholders	$—	$875
Net income available to common stockholders	$1,503	$1,903
Denominator:		
Denominator for basic earnings per share— weighted average shares	5,842	5,790
Effect of dilutive securities:		
Common stock equivalents	—	12
	5,842	5,802

Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions		
Basic earnings per share		
From continuing operations	$0.26	$0.18
From discontinued operations	—	0.15
Basic earnings per share	$0.26	$0.33
Diluted earnings per share		
From continuing operations	$0.26	$0.18
From discontinued operations	—	0.15
Diluted earnings per share	$0.26	$0.33

The number of stock options outstanding that had an antidilutive effect on our earnings per share calculation, and therefore have been excluded from diluted earnings per share calculation, was 0 and 0 for the three months ended March 31, 2018 and 2017, respectively. The actual effect of these shares, if any, on the diluted earnings per share calculation will vary significantly depending on the fluctuation in the stock price.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial Instruments

Our financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short maturities. The carrying value of long-term debt approximates fair value as it carries interest rates that either fluctuate with the euro-dollar rate, prime rate or have been reset at the prevailing market rate at March 31, 2018.

Income Taxes

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

Time Brokerage Agreements/Local Marketing Agreements

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

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *"Revenue from Contracts with Customers"* ("ASU 2014-09"), which provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under GAAP. The FASB has also issued a number of updates to this standard. This amendment and all updates, which established Accounting Standards Codification ("ASC") Topic 606 (the "new revenue standard") were adopted on January 1, 2018. The Company adopted the new revenue standard using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Impacts of the new revenue standard do not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "*Classification of Certain Cash Receipts and Cash Payments (Topic 230): Statement of Cash Flows"* ("ASU 2016-15"), which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. ASU 2016-15 also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU 2016-15 was adopted on January 1, 2018 and did not have a material impact on our consolidated financial statements.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Recent Accounting Pronouncements – Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, "*Intangibles – Goodwill and Other (Topic 350)*" ("ASU 2017-04") which removes step 2 from the goodwill impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 will be applied prospectively and is effective for fiscal years and interim impairment tests performed in periods beginning after December 15, 2019 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"), which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. ASU 2016-13 is effective for fiscal years and interim periods beginning after December 15, 2019. The Company is currently evaluating the impact that this standard will have on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *"Leases (Topic 842)"* ("ASU 2016-02") which requires that all leases with a term of more than one year, covering leased assets such as real estate, broadcasting towers and equipment, be reflected on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years fiscal years and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

3. Revenue

Adoption of the new revenue standard

We adopted the new revenue standard on January 1, 2018, using the modified retrospective method with no impact on our financial statements. The cumulative effect of initially adopting the new guidance had no impact on the opening balance of retained earnings as of January 1, 2018. There was no material impact on the condensed consolidated balance sheets as of March 31, 2018 or on the condensed consolidated statement of income for the three months ended March 31, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Disaggregation of Revenue

The following table presents revenues disaggregated by revenue source:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Types of Revenue		
Broadcast Advertising Revenue, net	$ 25,758	$ 24,071
Digital Advertising Revenue	950	880
Other Revenue	1,301	1,204
Net Revenue	$ 28,009	$ 26,155

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Nature of goods and services

The following is a description of principal activities from which we generate our revenue:

Broadcast Advertising Revenue

Our primary source of revenue is from the sale of advertising for broadcast on our stations. We recognize revenue from the sale of advertising as performance obligations are satisfied upon airing of the advertising; therefore, revenue is recognized at a point in time when each advertising spot is transmitted. Agency commissions are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory placed by agency and are reported as a reduction of advertising revenue.

Digital Advertising Revenue

We recognize revenue from our digital initiatives across multiple platforms such as targeted digital advertising, online promotions, advertising on our websites, mobile messaging, email marketing and other e-commerce. Revenue is recorded when each specific performance obligation in the digital advertising campaign takes place, typically within a one month period.

Other Revenue

Other revenue includes revenue from concerts, promotional events, tower rent and other miscellaneous items. Revenue is generally recognized when the event is completed, as the promotional events are completed or as each performance obligation is satisfied.

Contract Liabilities

At times a customer may pay for the services in advance of the performance obligations and therefore these prepayments are recorded as contract liabilities. Typical contract liabilities relate to prepayments for advertising spots not yet run; prepayments from sponsors for events that have not yet been held, gift cards sold on our websites used to finance a broadcast advertising campaign. Generally all contract liabilities are expected to be recognized within one year and are included in Accounts payable in the Company's Condensed Consolidated Financial Statements and are immaterial.

Transaction Price Allocated to the Remaining Performance Obligations

As the majority of our contracts are one year or less, we have utilized the optional exemption under ASC 606-10-50-14 and will not disclose information about the remaining performance obligations for contracts which have original expected durations of one year or less.

SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Intangible Assets

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

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

5. Common Stock and Treasury Stock

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through March 31, 2018:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2017	6,638	878
Conversion of shares	17	(17)
Issuance of restricted stock	19	29
Forfeiture of restricted stock	(1)	—
Exercise of stock options	21	8
Balance, December 31, 2017	6,694	898