SAGA COMMUNICATIONS INC
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period ended March 31, 2012

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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
73 Kercheval Avenue	
Grosse Pointe Farms, Michigan	**48236**
(Address of principal executive offices)	**(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 x 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 x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

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 4, 2012 was 3,652,405 and 597,504, respectively.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011 (Note)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,695**	$ 6,991
Accounts receivable, net	**16,969**	19,415
Prepaid expenses and other current assets	**1,659**	1,987
Barter transactions	**1,620**	1,398
Deferred income taxes	**1,177**	1,169
Total current assets	**28,120**	30,960
Property and equipment	**161,513**	160,430
Less accumulated depreciation	**98,938**	97,244
Net property and equipment	**62,575**	63,186
Other assets:		
Broadcast licenses, net	**90,584**	90,584
Other intangibles, deferred costs and investments, net	**5,634**	5,604
Total other assets	**96,218**	96,188
	$ 186,913	$ 190,334
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**$ 1,495**	$ 1,808
Payroll and payroll taxes	**6,166**	5,730
Other accrued expenses	**3,316**	2,502
Barter transactions	**1,710**	1,598
Current portion of long-term debt		3,000
Total current liabilities	**12,687**	14,638
Deferred income taxes	**14,001**	13,383
Long-term debt	**61,328**	66,078
Other liabilities	**3,240**	3,260
Total liabilities	**91,256**	97,359
Commitments and contingencies		
Stockholders equity:		
Common stock	**53**	53
Additional paid-in capital	**50,738**	50,681
Retained earnings	**73,536**	70,831

Treasury stock	**(28,670)**	(28,590)
Total stockholders equity	**95,657**	92,975
	$ 186,913	$ 190,334

Note: The balance sheet at December 31, 2011 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, 2012	2011
	(Unaudited) (In thousands, except per share data)	
Net operating revenue	**$ 29,934**	$ 28,708
Station operating expenses	**22,968**	22,736
Corporate general and administrative	**1,949**	1,940
Operating income	**5,017**	4,032
Other expenses, net:		
Interest expense	**528**	1,157
Other (income) expense, net	**(2)**	68
Income before income tax	**4,491**	2,807
Income tax provision	**1,786**	1,145
Net income	**$ 2,705**	$ 1,662
Earnings per share		
Basic	**$ 0.64**	$ 0.39
Diluted	**$ 0.64**	$ 0.39
Weighted average common shares	**4,244**	4,237
Weighted average common and common equivalent shares	**4,259**	4,243

See notes to unaudited condensed consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2012	2011
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Cash provided by operating activities	**$ 8,798**	$ 5,885
Cash flows from investing activities:		
Acquisition of property and equipment	**(1,189)**	(1,145)
Other investing activities	**(75)**	(66)
Net cash used in investing activities	**(1,264)**	(1,211)
Cash flows from financing activities:		
Payments on long-term debt	**(7,750)**	(4,000)
Purchase of shares held in treasury	**(80)**	(117)
Net cash used in financing activities	**(7,830)**	(4,117)
Net (decrease) increase in cash and cash equivalents	**(296)**	557
Cash and cash equivalents, beginning of period	**6,991**	12,197
Cash and cash equivalents, end of period	**$ 6,695**	$ 12,754

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, 2012 and the results of operations for the three months ended March 31, 2012 and 2011. Results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2011.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2012, for items that should potentially be recognized in these financial statements or discussed within the notes to the financial statements.

Earnings Per Share Information

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

	Three Months Ended March 31,	
	2012	**2011**
	(In thousands, except per share data)	
Numerator:		
Net income available to common stockholders	$ 2,705	$ 1,662
Denominator:		
Denominator for basic earnings per share weighted average shares	4,244	4,237
Effect of dilutive securities:		
Common stock equivalents	15	6
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	4,259	4,243
Basic earnings per share	$ 0.64	$ 0.39
Diluted earnings per share	$ 0.64	$ 0.39

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 94,000 and 294,000 for the three months ended March 31, 2012 and 2011, 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.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

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

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

2. Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU change the wording used to describe many of the requirements in U.S. generally accepted accounting principles (GAAP) for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this ASU to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This update was adopted on January 1, 2012 and did not have a material impact on our consolidated financial statements.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Intangible Assets

We evaluate our FCC licenses 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.

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 4 to 26 years. Other intangibles are amortized over one to eleven years.

4. Common Stock and Treasury Stock

The following summarizes information relating to the number of shares of our common stock issued in connection with stock transactions through March 31, 2012:

	Common Stock Issued	
	Class A	Class B
	(Shares in thousands)	
Balance, January 1, 2011	4,770	598
Conversion of shares	1	(1)
Balance, December 31, 2011	4,771	597
Conversion of shares		
Balance, March 31, 2012	4,771	597

We have a Stock Buy-Back Program to allow us to purchase up to $60 million of our Class A Common Stock. From its inception in 1998 through March 31, 2012, we have repurchased 1,393,779 shares of our Class A Common Stock for approximately $45,756,000.

5. Stock-Based Compensation

2005 Incentive Compensation Plan

On May 10, 2010, our stockholders approved the Amended and Restated 2005 Incentive Compensation Plan (the 2005 Plan) which replaced our 2003 Stock Option Plan (the 2003 Plan) as to future grants. The 2005 Plan extends through March 2015 and allows for the granting of restricted stock, restricted stock units, incentive stock options, nonqualified stock options, and performance awards to officers and a selected number of employees.

Stock-Based Compensation

For the three months ended March 31, 2012 and 2011, we had approximately $22,000 and $95,000, respectively, of total compensation expense related to stock options. This expense is included in corporate general and administrative expenses in our results of operations. The associated future income tax benefit recognized for the three months ended March 31, 2012 and 2011 was approximately $9,000 and $39,000, respectively.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

The following summarizes the stock option transactions for the 2005 and 2003 Plans and the 1992 Stock Option Plan (the 1992 Plan) for the three months ended March 31, 2012:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	227,747	$ 49.86	3.6	$
Granted				
Exercised				
Expired	(191)	37.96		
Forfeited				
Outstanding at March 31, 2012	227,556	$ 49.87	3.4	$
Exercisable at March 31, 2012	227,556	$ 49.87	3.4	$

The following summarizes the non-vested stock option transactions for the 2005, 2003 and 1992 Plans for the three months ended March 31, 2012:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2012	6,962	$ 19.30
Granted		
Vested	(6,962)	19.30
Forfeited/canceled		
Non-vested at March 31, 2012		$

The following summarizes the restricted stock transactions for the three months ended March 31, 2012:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2012	9,914	$ 26.15
Granted		

Vested	(5,734)		27.75
Forfeited	(30)		23.96
Non-vested and outstanding at March 31, 2012	4,150	$	23.96

For the three months ended March 31, 2012 and 2011, we had approximately $35,000 and $67,000, respectively, of total compensation expense related to restricted stock-based compensation arrangements. This expense is included in corporate general and administrative expenses in our results of operations. The associated tax benefit recognized for the three months ended March 31, 2012 and 2011 was approximately $14,000 and $28,000, respectively.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

6. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2012	December 31, 2011
	(In thousands)	
Credit Agreement:		
Term loan	$ 57,750	$ 58,500
Revolving credit facility	2,500	9,500
Secured debt of affiliate	1,078	1,078
	61,328	69,078
Amounts payable within one year		3,000
	$ 61,328	$ 66,078

Our credit facility providing availability up to $117.8 million (the Credit Facility) consists of a $57.8 million term loan (the Term Loan) and a $60 million revolving loan (the Revolving Credit Facility) and matures on June 13, 2016.

We had approximately $57.5 million of unused borrowing capacity under the Revolving Credit Facility at March 31, 2012. The unused portion of the Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, permitted acquisitions and related transaction expenses and permitted stock buybacks.

The Term Loan principal amortizes in equal installments of 5% of the Term Loan during each year, however, upon satisfaction of certain conditions, as defined in the Credit Facility, no amortization payment is required. The Credit Facility is also subject to mandatory prepayment requirements, including but not limited to, certain sales of assets, certain insurance proceeds, certain debt issuances and certain sales of equity. Optional prepayments of the Credit Facility are permitted without any premium or penalty, other than certain costs and expenses. As of March 31, 2012, we have no required amortization payment.

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

The Credit Facility contains a number of financial covenants (all of which we were in compliance with at March 31, 2012) which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to investments, additional indebtedness, dividends, distributions, guarantees, liens and encumbrances.

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SAGA COMMUNICATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (Continued)

7. Segment Information

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

The Radio segment includes twenty-three markets, which includes all ninety-one of our radio stations and five radio information networks. The Television segment includes 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
		(In thousands)		
Three Months Ended March 31, 2012:				
Net operating revenue	$ 25,199	$ 4,735	$	$ 29,934
Station operating expense	19,354	3,614		22,968
Corporate general and administrative			1,949	1,949
Operating income (loss)	$ 5,845	$ 1,121	$ (1,949)	$ 5,017
Depreciation and amortization	$ 1,297	$ 436	$ 57	$ 1,790
Total assets	$ 146,667	$ 26,493	$ 13,753	$ 186,913

	Radio	Television	Corporate and Other	Consolidated
		(In thousands)		
Three Months Ended March 31, 2011:				
Net operating revenue	$ 24,506	$ 4,202	$	$ 28,708
Station operating expense	19,278	3,458		22,736
Corporate general and administrative			1,940	1,940
Operating income (loss)	$ 5,228	$ 744	$ (1,940)	$ 4,032
Depreciation and amortization	$ 1,339	$ 412	$ 54	$ 1,805
Total assets	$ 148,859	$ 26,833	$ 21,860	$ 197,552

8. Subsequent Event

On April 3, 2012 we entered into a definitive agreement to sell our Greenville, Mississippi TV station (WXVT) for $3 million, subject to certain adjustments, to H3 Communications, LLC (H3). We also entered into an Agreement for the Sale of Commercial Time and a Shared Services Agreement (the Agreements) with Commonwealth Broadcasting, LLC (Commonwealth), that are effective May 1, 2012, whereby

Commonwealth, in conjunction with the WXVT sales staff will sell the advertising inventory of WXVT, and WXVT will provide programming and services including but not limited to use of facilities, traffic, billing, engineering, administrative and accounting to Commonwealth. The Agreements remain in effect until the closing of the sale or termination of the purchase agreement, whichever is earlier. We do not anticipate this transaction to have a material effect on our consolidated financial statements. The sale, which is subject to the approval of the Federal Communications Commission, is expected to close during the third quarter of 2012.

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

Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Saga Communications, Inc. and its subsidiaries contained elsewhere herein and the audited financial statements and Management Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2011. The following discussion is presented on both a consolidated and segment basis. Corporate general and administrative expenses, interest expense, other (income) expense, and income tax expense are managed on a consolidated basis and are reflected only in our discussion of consolidated results.

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

General

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

Radio Segment

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

Most advertising contracts are short-term and generally run for a few weeks only. The majority of our revenue is generated from local advertising, which is sold primarily by each radio markets sales staff. For the three months ended March 31, 2012 and 2011, approximately 88% and 86%, respectively, of our radio segment s gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representative firms that specialize in national sales for each of our broadcast markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a significant increase in political advertising for 2012 due to both the presidential election and a number of congressional, senatorial, gubernatorial and local elections in most of our markets.

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

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

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

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

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

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

During the three months ended March 31, 2012 and 2011 and the years ended December 31, 2011 and 2010, our Bellingham, Washington; Des Moines, Iowa; Manchester, New Hampshire; and Milwaukee, Wisconsin markets, when combined, represented approximately 27%, 28%, 28% and 30%, respectively, of our consolidated net operating revenue. An adverse change in any of these radio markets or our relative market position in those markets could have a significant impact on our operating results as a whole.

We have experienced a decline in our net operating revenue for the three months ended March 31, 2012 and year ended December 31, 2011, as compared to the corresponding periods of 2011 and 2010, respectively, in our Milwaukee, Wisconsin market. This decline in net operating revenue has directly affected the operating income of our radio stations in this market. These reductions are attributable to a combination of aggressive competitive pricing due to a soft economy and new rating methodology that has changed the competitive pricing landscape in the market; an increase in the demand for 30 second spots which has caused a reduction in both our rates and inventory available as we control the number of units per hour to provide more entertainment for our listeners; and a decline in certain key category spending in the market.

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

	Percentage of Consolidated Net Operating Revenue for the Three Months Ended March 31,		**Percentage of Consolidated Net Operating Revenue for the Years Ended December 31,**	
	2012	**2011**	**2011**	**2010**
Market:				
Bellingham, Washington	5%	5%	5%	5%
Des Moines, Iowa	6%	6%	6%	6%
Manchester, New Hampshire	5%	5%	5%	6%
Milwaukee, Wisconsin	11%	12%	12%	13%

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

During the three months ended March 31, 2012 and 2011 and the years ended December 31, 2011 and 2010, the radio stations in our four largest markets when combined, represented approximately 32%, 35%, 34% and 36%, respectively, of our consolidated station operating income. The following tables describe the percentage of our consolidated station operating income represented by each of these markets:

	Percentage of Consolidated Station Operating Income (*) for the Three Months Ended March 31,		**Percentage of Consolidated Station Operating Income(*) for the Years Ended December 31,**	
	2012	**2011**	**2011**	**2010**
Market:				
Bellingham, Washington	6%	7%	6%	7%
Des Moines, Iowa	4%	4%	6%	4%
Manchester, New Hampshire	8%	8%	7%	8%

Milwaukee, Wisconsin	14%	16%	15%	17%

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

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Television Segment

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

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

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

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

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

Most of our revenue is generated from local advertising, which is sold primarily by each television markets sales staff. For the three months ended March 31, 2012 and 2011, approximately 82% and 81%, respectively, of our television segment s gross revenue was from local advertising. To generate national advertising sales, we engage independent advertising sales representatives that specialize in national sales for each of our television markets.

Our revenue varies throughout the year. Advertising expenditures, our primary source of revenue, generally have been lowest during the winter months, which include the first quarter of each year. We expect a significant increase in political advertising for 2012 due to both the presidential election and a number of congressional, senatorial, gubernatorial and local elections in most of our markets.

In 2009 we entered into retransmission consent agreements with certain cable and satellite providers as to the terms of their carriage of our television stations, and the compensation we would receive for granting such carriage rights. We recognized revenue of approximately $608,000 for the year ended December 31, 2011 as a result of these agreements. In 2011 we negotiated new retransmission consent agreements with these and other providers that will result in a significant increase in our retransmission consent revenue. We expect to recognize revenue of approximately $1.9 million in 2012 and, per the terms of our network affiliation agreements, we expect to remit approximately $550,000 of this revenue to our network partners as their share of our retransmission consent revenue.

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

Our television market in Joplin, Missouri represented approximately 9%, 9%, 8% and 8%, respectively, of our net operating revenues, and approximately 12%, 12%, 10% and 10%, respectively, of our consolidated station operating income (operating income plus corporate general and administrative expenses, depreciation and amortization) for the three months ended March 31, 2012 and 2011 and the years ended December 31, 2011 and 2010.

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Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Results of Operations

The following tables summarize our results of operations for the three months ended March 31, 2012 and 2011.

Consolidated Results of Operations

	Three Months Ended March 31,		$ Increase	% Increase
	2012	2011	(Decrease)	(Decrease)
	(In thousands, except percentages and per share information)			
Net operating revenue	$ 29,934	$ 28,708	$ 1,226	4.3%
Station operating expense	22,968	22,736	232	1.0%
Corporate G&A	1,949	1,940	9	0.5%
Operating income	5,017	4,032	985	24.4%
Interest expense	528			