MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Saga Communications First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions]. And as a reminder, this conference is being recorded today, Thursday May 7, 2009.

I would now like to turn the conference over to our host, Mr. Ed Christian. Please go ahead sir.

Edward K. Christian, President, Chief Executive Officer and Chairman

Thank you, [inaudible] I'm going to turn it over in a moment to Sam Bush who has a lot of numbers and a lot of figures and I'll be back in a minute for some dialogue and some questions that we've had sent in to us. Sam?

Samuel D. Bush, Senior Vice President and Chief Financial Officer

First you'll note that we dropped the pro forma schedule this quarter and this was done due to pro forma and historical being the same for the quarter. Now with the regularly scheduled review of what we can and can't say and what we are saying, so anyway before beginning, I'd like to emphasize that this call will contain forward-looking statements about our future performance and results of operations that involve risks and uncertainties that are described in the Risk Factor section of our most recent Form 10-K. Actual results may differ materially from those expressed in this conference call.

This call will also contain a discussion of certain non-GAAP financial measures within the meaning of Item 10 of Reg S-K. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached in the selected financial data non-GAAP disclosure tables. We use these non-GAAP measures to assess our financial performance for the purpose of evaluating stations and markets as well as determining incentive compensation in addition to analyzing overall operating performance.

You have our first quarter numbers from the press release and supporting schedules. I want to spend just a few minutes highlighting a few areas. The Political revenue we reported for the quarter can be broken out as follows: Radio was 365,000 last year versus 33,000 this year, TV was 192,000 last year versus 5,000 this year and the networks had 94,000 in Political last year with no Political this year.

National accounted for approximately 12% of gross revenue for the quarter compared to 14% last year. Our Networks' net revenues were 823,000 for the quarter compared to 921,000 last year. Station operating income, which excludes depreciation and amortization, for the Networks was 2,000 for the quarter compared to 23,000 last year. For reporting purposes, the Networks are reported in our Radio segment.

Interactive continued to be a growth area as we recorded 623,000 in revenue this quarter, compared to 215,000 for the same period last year. We continue to have high expectations for this area in 2009 and beyond.

Station operating expense decreased 1.5 million for the quarter or 5.8%. However, it should be noted, a number of unique items were included in the expenses this quarter. We recognized 240,000 in additional depreciation in the quarter primarily due to the obsolescence of our remaining analog television equipment that will no longer be in service as we finish the digital conversion later this year.

Additionally, we recorded an increase in our Interactive expense, that goes along with the increase in revenue, of 154,000 as we continued to grow the Interactive side of our business. 289,000 of the expenses during the first quarter were as a result of severance packages that were incurred as a part of our workforce reduction plans and 145,000 of the overall expense were incurred as a result of the HD2/HD3 and translator stations that we are now operating. All told without these specific expense increases, our overall Station operating expenses would have been down 9%.

Finally relative to expenses, our corporate G&A expense decreased 485,000 or 19%. This was due to an across-the-board focus on expense control. We expect to continue to see the benefits of the additional cost reductions throughout the rest of the year as our 5% payroll reduction did not incur until early March and we had a number of jobs eliminated during the first quarter. We had approximately 6.5% reduction of our full-time workforce and approximately 18% reduction of our part-time workforce. The actual reduction of full-time would have been a bit more if you exclude the additions we made to some of our market sales teams. We still believe that we must invest in our sales staff as we weather the current economic times.

One area of expense that unfortunately we expect to see an increase in is in the area of bad debt. With the economic cycle driving more companies to financial difficulty and even bankruptcy, we saw our first quarter bad debt expense increase 70,000 from 0.72% to 1.14%. While we are carefully watching our credit review procedures as well as keeping a close eye on our collection activities and procedures, we do expect the full year's expense to be between 1.25 and 1.5%. If the economy does begin to recover as some are indicating that it might, this may not be as much of an issue as we're currently thinking it could be.

As reported in the press release, capital expenditures in the first quarter were 1.1 million compared to 2.1 million last year. We are estimating total capital expenditures in 2009 to be 3.5 million which is significantly less than the 7.1 million we incurred in 2008 for the full year.

As of March 31, 2009, we had 8.1 million in cash on hand. We amended our existing credit facility as of March 9 of this year. In addition to reducing the revolving line of credit to 150 million, we also increased our maximum leverage ratio to 5.25 times at 3/31/09, and then 5.75 times from June 30, '09 through June 30, 2010.

Additionally we revised the interest rates and commitment fees. All of this was previously disclosed in our required 8-K filing. As of 3/31, our leverage ratio was 4.3 times EBITDA with 132.350 million outstanding.

Two other quick items for 2009, we expect interest expense for the year to be between 6.8 million and 7.2 million. Our anticipated total tax rate going forward will be 44.5%. We anticipate deferred taxes for the year to be between 4.6 million and 5 million. Current taxes will vary based on the income in each quarter.

One final note, one of the questions that we were e-mailed prior to the call was about FAS 123(R), the non-cash compensation expense relating to stock options. For the first quarter of this year, that expense was 202,000. Ed?

Edward K. Christian, President, Chief Executive Officer and Chairman

Thank you, Sam. Let me start with a quote that I think everybody has heard from Paul Romer which is probably still very fashionable right now, and that is -- Paul Romer is an economist who said "A crisis is a terrible thing to waste." And looking back now over the last six months or seven months, what did we do and what did we not do as a company? Well I think first off, it's important to recognize and we did recognize in advance that there were problems and we started a number of months ago addressing it. What we did not anticipate was the severity of the economic situation and we began to address that very quickly in the first quarter.

And like anything else, if you try and do things right, you have to do them surgically, and rather than come out with just an across-the-board number that we wanted to reach, and we spent a lot of time with all of our management team going line item by line item, station by station, organizational chart, looking at ways to cross purpose people to efficiently operate in a tough environment without comprising the integrity of the product, and we were able to do this without putting a tremendous strain on the resources of the stations. So that even though they are operating in a much more constricted mode, our services -- and to our audience and to our advertisers -- we do not believe they've been compromised. Strained, yes, there is no question that we've had to do that and I think that you'll find that from everybody else. But compromised, I would not go and say that.

Sam told you about the numbers, the 6.5, 6.8% decrease in workforce for the full-time, 18% for part-time. And he did mention that we've added a number of sales people, so the number would have been higher. And we believe that in times like this, staffing up is really the way to go in sales, but not just adding bodies, but being more strategic and with that, we have really been more in an examining mode of the applicants that come forward.

I think it's true that a crisis is a terrible time to -- is a terrible thing to waste and one of the things I would say is that I think that we learned an awful lot from this process. We learned a lot about ourselves because in a rising tide [inaudible] boats and you can tend to not examine and inspect the way that you do in difficult times and it's been a very good exercise for all of us. I think our run rate probably shows an overall expense reduction, not counting CapEx, of projected at like $8 million this year, is that about right, Sam? Somewhere in there?

Samuel D. Bush, Senior Vice President and Chief Financial Officer

In that neighborhood, yeah.

Edward K. Christian, President, Chief Executive Officer and Chairman

In that neighborhood there, so. And on a run rate, if we figure about $10 million going forward. Now when things get better, that rate probably will not be as high because we need to reinvest in product. But, we did do a detailed expense analysis and came up with these numbers. We also renegotiated a lot of existing contracts. It was a very interesting experience for us to go back and look at our partners who had been supplying goods and services to us over the years and going back to them and saying these are a different -- this is a different marketplace, this is a different environment and we've been very good and helpful to you over the years, can you help us out now. And pretty much right on down the line, we were able to restructure and renegotiate the existing contracts that we had. And we also were able to cancel contracts that were expiring and took a hard look at services that we elected not to renew, or postpone them -- the renewal, to a better time. And we looked at that as a savings of probably in a run rate over $1 million a year.

Again, I don't think there is any weakness in the station's structure. In fact, our performance level with our people and our commitment is high. I know that it's challenging times, I can't say that there are not any moral issues because any time that you have to do workforce reductions. But on the overall, I would say that the spirit is very good and understanding. I don't think that you can pick up a newspaper or read anything today without saying to yourself, at least we have a solid company that we're working with, or working for, whichever the choice might be. And I think that that's important and that's helped us with our people and, to weather this time right now. It's kind of interesting, because we've had to go through a lot of different steps to get here. But again I think that we're stronger.

We have some questions that I want to go through right now and that pretty well does it.

QUESTION AND ANSWER SECTION

<A – Edward Christian>: "How long is the 3.5 million of CapEx sustainable?"

It's a good question. And let me tell you one of the things that we've done is when you look at, for instance, let's just take a category, we were talking the other day with one of our vendors who was in here on the RF side. And I told them that normally we look at a shelf life of 20 years for a transmitter and he said, "I wish everybody were to look at that, because some of them run them much longer," and I said "Well, you are expecting the transmitter to do 24/7, 365, and we think after 20 years, it's fine to do that." And now we're looking and saying "Can we make that 22 years, can we push another 10% of the life." And even then they're still – we use them as a backup transmitter, but that's the type of thing that we're just postponing [inaudible]. I don't think the level that we're – our run rate now is sustainable, but I think that the rate that we had before was largely – a huge expense was involved in the digital television conversion and also the implementation of HD on the radio side. So that number will come down. And I think if I had to guesstimate and I think Sam can double check me on this, I think we could see a run rate that's probably 30% less than what we've been averaging.

<A – Samuel Bush>: Oh, easily. It's come down quite a bit, and...

<A – Edward Christian>: -- to 40% even, right?

<A – Samuel Bush>: And a lot of the historical CapEx was attributable to acquisitions, rebuilding of facilities as we acquired them and brought them up to what we believe the proper standards are and so on. So while that 3.5 million – it can be sustained for a few years, it certainly will pop back up somewhat, but it will not – I don't anticipate, go back to where it's been in the last few years because of digital, because of acquisitions, because of other things.

<A – Edward Christian>: Yep. "How does Q2 look compared to Q1? How did April finish?" I'll talk about the second quarter in a minute. "How did April finish?"

I think it's – I can say this without getting in trouble, but same as the first quarter.

<A – Samuel Bush>: Yes.

<A – Edward Christian>: Yeah, okay. We'll just kind of leave it at that.

"How do you think the Radio in general will do in a recovery and what type of recovery would you expect?" I'll – and that, I'll tie that all into one question here. "Your thoughts on the performance royalties and what is going on in Congress? What are the chances of this passing? And if it does, how badly does it hurt your business going forward?"

Well, the jury is out on passing, it is in the House Judiciary and a partner bill is being considered in the Senate right now. We think that radio has always had local relationships with our Congress people and we're able to explain to them that this is a unprecedented change in a historic relationship where radio has actually been the promotion arm for the recording companies. And this is really – it is a tax on radio stations with the money, over 50% or 50% going to foreign-owned record companies. So we're really expatriating dollars out of the country from local radio stations. This would be a terribly unfair burden on the sole proprietors around the country, many of whom have been impacted seriously.

I got a note the other day from a station – I'm Chairman of the Radio Music License Committee and we're renegotiating our contracts with ASCAP and BMI, they expire in 2010. And this person was saying that the number of industries that he has in his small town are down and that his revenues decreased by 30%. And adding the continuation of the fees on a fixed fee basis for ASCAP and

BMI and adding another tax for performers' royalties would virtually drive him over the edge. I hope that the voice of reasonableness perseveres with the members of Congress and that they are able to talk to their local radio stations and their broadcasters, that they're able to understand that this is a windfall tax that would accrue to foreign-owned record companies and that it's not the time now to visit a historic change in a relationship.

<A – Samuel Bush>: Very good.

<A – Edward Christian>: That's right off the top of my head. "Your thoughts on the Nielsen diary system in the smaller markets, would you join them if available?"

We [inaudible] into Nielsen. We actually like in the smaller markets being able to sell radio without ratings, and that is that, once again, if you show up a -- if you do compelling radio and you go out and call on clients and you have good creative and they advertise on your station, they get results. And to me it's always been results that drive the radio industry and not numbers on a page which are subject to huge swings and error, plus or minus, one or two standard deviations of the mean in a process – in a diary method that is archaic at best and that has been obsolete. And one of the problems that you have right now is that the number of cell phones are actually now ahead of landlines, that crossed over in the last year in terms of that, a lot of people disconnected their landlines, which makes it even more difficult for telemarketers and other people to contact cell phone owners, because they look at the call like anybody today and they recognize a number and if they don't know it, it's an out of town, out of area, unavailable, makes the diary system have a tremendous number of problems.

We look at anything, but we have reservations on the diary system and we've been very vocal on that. PPM is coming in some of our markets, roll-out for Milwaukee, Columbus, [inaudible] I think is 2010, and we're looking forward to kind of discussing this with Arbitron in that respect.

"Does it feel like you have hit bottom or there is another shoe to fall? What feeling do you get from your advertisers?"

Well, I think if we look at 1992, James Carville said it brilliantly, "It's the economy, stupid". And he is prescient – he was prescient then, he is prescient today. Here is what my take is. Fear is still present in the consumer. There is a huge fear factor, if you subscribe to services, especially here where we are in Michigan. I mean it's almost contagious, this endemic, this fear that is permeating everybody and what they're doing. But fear creates inhibitions towards consumption and that's something we have to remember. But eventually consumption must occur. Services can only be delayed so long. And additionally on the hard or soft goods, eventually you have to repair or replace. And when that happens, the smart business markets do gain share and we believe that [audio dip] soft goods that will eventually take us out of this.

Now I'm not an economist and in truth all but a very few – a very small number of economists even called this downturn correctly. If you go back and look where they were six or nine months ago, nobody saw the magnitude of this. I mean there was a couple that actually said this, but they have always been kind of, doom on the economy, for several years. But I can't call it and I don't – for me to call bottom, it would be a great deal of hubris on my part to declare bottom. I do, in talking with my stations, in talking with our clients, I do see an occasional green sprout, but in truth I don't think our winter of challenges, it isn't ready to let us slip into spring flowers yet, and that's still not the case.

But we, as a company, are not in hibernation. Over the years we have carefully shepherded and guarded our nutrients so that we can join the ranks of survivalists and not have to beg for food and that's part of the premise we've always operated on. I think that it's going to be awhile 'til we climb out of this. I think that there could be better days ahead, because no – the – no depression, recession, whatever, lasts forever, but I can't quite call that yet. I'm buoyed by the fact that certain other broadcasters, starting from Rupert Murdoch on down, believe that this is the bottom of our trough. But I am not quite that prescient.

Let me kind of wrap this up with – and I was just cruising the other day and came across with this quote, which I think is wonderful, the time is right now. And Winston Churchill said this during the dark days of World War II, he said, "We have not journeyed across the centuries, across the oceans, across the prairies, because we are made of sugar candy." And that said, radio and TV are valid and local. Radio reached an all time record listening high last year. And there is no question that we have received an unprecedented ding in our industry, but I ask that you don't count us out or irrelevant because radio and television have always been part of your communities and will continue to be so. And I look forward to having a better call next quarter. Sam, have you got any other comments here?

<A – Samuel Bush>: No, I think that's very good. Obviously we're continuing to work on all fronts to run the business as best we can and relate to the economic times as best we can.

<A – Edward Christian>: [inaudible], if you're there, if you could give the replay number for anybody who's interested?

Operator: Okay, thank you. Ladies and gentlemen, this conference will be available for replay after 4:00 Eastern Time today through May 14, 2009 at midnight Eastern Time. You may access the AT&T Executive replay system at any time by dialing 1-800-475-6701 and entering the access code of 996702. International participants may dial 320-365-3844. That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect. You're back in the private speaker conference.