MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Second Quarter 2009 Earnings Release Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions]. And as a reminder, this conference is being recorded.

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

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

Thank you, Katy. I will be back in a few minutes, but as our custom, we will turn this over to Sam Bush with the introduction and the disclaimers and a lot of the statistics as such. Sam?

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

Thank you, Ed. Before beginning, I would 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. National accounted for approximately 13% of gross revenue for the quarter, compared to 15% last year. Our Networks' net revenues were 1.3 million for the quarter, compared to 1.1 million last year. Station operating income, excluding depreciation and amortization, for the Networks was 404,000 for the quarter, compared to 226,000 last year. For reporting purposes, the Networks as always are reported in our Radio segment.

Political revenue for the quarter was 160,000, compared to 395,000 for the same period last year. It can be broken out as follows: Radio was 103,000 this year versus 171,000 last year; TV was 7,000 this year versus 185,000 last year; and the networks had 50,000 in Political this year versus 39,000 last year.

Interactive continued to be a growth area as we recorded a 57% increase to 862,000 in revenue this quarter, compared to 549,000 for the same period last year. We did get a couple of questions about pacings and how the second quarter trended. So, I'll go ahead and answer some of those right now as we go through the rest of my notes.

The trend in revenue for the second quarter was basically, April was down 16.5%, May was down 18.1%, and June was down 10.9%. So, we did spend a little bit time high-fiving ourselves in June, thinking it was a little surreal that we were excited about only being down almost 11%. But the net effect is that I'm not sure you can draw any conclusions from the second quarter's performance in net revenue, solely because it was all over the board and significant differences and discrepancies between the months.

As far as quarter -- Q3 pacings go, July is down a little over 18%, August is down roughly 19, and September just a little over 20. However, what we have seen in the first part of this year is that as we've entered a month, and to the point in time where we end the month – so, from beginning of the month to the month – we've closed roughly 5% on our pacing. So, we've been able to bring in about 5 points of net revenue in the pacing results for the month as we enter it to when we exit it. Station operating expense, we are very proud of. These decreased almost 15% and it decreased by approximately $4 million for the quarter. We expect to see the benefits of the cost reduction initiative continue throughout the rest of the year.

One area of expense that unfortunately we expect to see an increase in, is in the area of the bad debt. With the economic cycle driving more companies to financial difficulty and even bankruptcy, we are experiencing an increase in expense from 0.55% to 0.75%, still fairly good, but a bit of a concern because it is increasing. We are carefully watching our credit review procedures as well as keeping a close eye on our collection activities, as we do expect the full year's expense to maybe be as high as 1 to 1.5%, again depending on a lot of what the economy does.

As reported in the press release, capital expenditures in the second quarter were 1.5 million, which was approximately the same as the second quarter of last year. Year-to-date capital expenditures were 2.6 million compared to 3.5 million last year. We are estimating total capital expenditures in 2009 to be 3.5 to 4 million, probably closer to 4 million, as compared to 7.1 million in 2008.

As of June 30, 2009 we had 13.7 million in cash on hand, with 133.4 million of debt outstanding; our leverage calculation as per our bank agreement was 4.48 times. I would say that this is one of the best in the industry and something that all of Saga has to be proud of.

Also I'd like to point that even during these difficult economic times, Saga has generated almost 7 million in free cash flow during the first six months of this year. This is approximately $1.65 per share. While all of us wish for and know that better times are ahead, I have to thank all of our employees and managers for their diligent efforts in making the results what they are.

Two other quick items. For 2009, we expect interest expense for the year to be between 5.5 million and 6 million. We did get a couple of questions on interest expense as well, and it is correct that we had approximately 145,000 cash tax benefit in the second quarter. Also, we don't currently have any interest swap, hedges, et cetera in place. Our anticipated total tax rate going forward will be 44.6%. We anticipate deferred taxes for the year to be between 4.6 and 5 million. Current taxes will vary based on the income in each quarter. Once again, this quarter we asked for your questions to be submitted, some of which I've already tried to answer; the rest we'll get in just a few minutes.

Ed, I will turn it back over to you.

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

Thank you, Sam. And I also have to reiterate, gosh, I'm really proud of all the people at our stations because, under some stressful times, they've really pulled it together in a lot of respects. And what I find interesting, and I'm not going to sit here and talk about the product categories were down so much and automotive were down, andn this. But one of my managers called the other day, and he said he ran into one of the TV reps in town. And the TV rep said to him, "where do you find all those new businesses you have on the air?"

And I think that's a lot of the answer. We can sit here and talk about the downs. We can talk about the product categories that are out of our control. But revenue generation, which is so important - and I'm seeing this time after time, with people thinking out of the normative way of doing business in terms of working their accounts, whether – I saw the other day just a presentation made to a cardiology center, and these are the types of the things that we can do in broadcasting, that go we can do in radio, that really kind of break the traditional mold on how we've been doing it for so many years. And I'm just so pleased with that, and that's showing in our results here. And that does make a difference.

One of the questions that was asked of me is, am I seeing bottom? That's always a difficult question to answer. I will tell you right now that I feel that we are running close to what could be in today's world a bottom, but if you are familiar with anything in oceanography, you know that you can quickly fall off a undersea ledge and cliff and drop 2000 feet. So, where we are travelling right now seems to be kind of in a floor area. And if you look at where other companies are pacing and – the other public companies, which is all we have for comps – there seems to be a little bit of this area there.

So, I don't want to say we are going to continue in that, but for right now I don't see us – unless there are unexpected or unintended consequences in the economy that would drive it into a much more of a disaster scenario.

The second part of that question is, when will this end? And I was reading last night on the East India Company, and kind of the history of it and going back into the 18th and 17th century. And some pretty interesting points made that I kind of think of some parallels right now, and I need to do this because it kind of frames where we're going. And one of the things about the East India Company, why they were so successful, is until they really arrived on the scene, and before the industrial revolution as such, the need – people's needs were driving commerce, and that's exactly what the driver was, was the need.

Now what East India Company did is, they brought back all these wonderful cloths from India, and they would take them, the new ones that would come in twice a year, and they would take certain samples of this wonderful cloth and they would give them to some of the top fops in Britain and in England, and also to women. And women would take this free material and make dress – dresses, and everybody would try and emulate them, and we create a desire. And for years and years then, what they found was that desire drove commerce, and for years and years that's what was driving the broadcast industry, is desire. And as consumers started getting more in debt that kind of came to a rapid halt.

And to put that, kind of frame that into reference, nobody wanted – that went out and said I need a TV set. They wanted a 52-inch LCD TV set. That was their desire to have that. And so what's happened right now is desire has kind of stopped, and that's where we have run up a little bit short in business. The needs are still there, which is why we're still doing revenue. But the desire is not. And I suspect what's going to happen on that is, if you look and see, personal savings are now going back up, and once families reach a level of personal comfortability, then discretionary income returns, and then desires overcome needs and our commerce starts growing again.

So it's not a question of when this happens, it's basically when the families begin to have a level of comfort that they have enough in reserves now that they can start going out and buying some of the special things they want. So there isn't really a date certain on that, that I can look at. But that's how we view it. Again, needs – that's what we are doing right now. We are – the advertising that we are doing now is needs. We are doing a little bit of desire, but where we lost the revenue in the industry was in the desire category, where we were selling hopes, aspirations and wishes. That will return. That always has. This is just a temporary hiatus while we get a rebalancing going on.

Now the question on margins, several of the other companies who have come out and touted their margins, and our margins, frankly some – what are they are running, about 27?

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

They're in the 26, 27 range.

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

And the question was asked, could you go up and do what they are doing in 30s and higher? And the answer is, yeah, we could, but probably not on my watch. Because we have already instituted substantiative reductions, and we are not seeking a short-term spike that we believe would weaken long-term health and profitability of the company. That's the difference.

There are some companies that are – in the need for immediate margin revenue gratification, are perilously close to eating their seed corn, and we are not going to get to that level there. You can do this on the interim basis. You certainly – and I said the same, I mean it's like a hotel, if you decide that they are only going to vacuum their rugs every third day in the rooms. And you can probably get away with it for a while. And after a while people say, you know, there is something wrong here and I'm not going to stay here anymore. Or you can take the pills that you have every day and split them in half and say, well, instead of a 30-day supply I have a 60-day supply. What are you injuring? Probably the health of the patient. And so, yes there are still little things we could do, we are not going to do that.

But with that said, we do have indeed in place, in a Defcon 3 or Defcon 4 scenario, but circumstances would have to be dire before we would implement it. We believe we have a fiduciary responsibility and we are operating at the levels we are, without reducing it down to a point where are dis-servicing or being of dis-service to our community. And that's something that really, that we take very much as a serious responsibility.

The final question that I had was that one group broadcaster overused, said that rates are down, a number of sponsors saying that rates are down. Well, yeah, duh. I mean, that's correct, and the number of spots are about the same. Yeah, historically, a radio station will sell 3,000 spots in a month. That for some reason has been a metric that's been around for a long time and is probably still applicable today. And the last quote is, it's a buyers market. And the answer is, yeah. It is. And the question is, why? And this is really where it comes down to.

Now remember, we have talked before about transactional and – business, and relationship business. And I'm very thankful that we have a lot of stations who are very big on the relationship cycle. But in the transactional area, radio is a service industry. Like it or not, we can talk about all the creative things we do in advertising and all the benefits that accrue to us in that respect, but we are a service industry. And I submit to you that nobody this afternoon could send an e-mail out to 50 doctors and say "I want going to buy all your unused appointments for the next thirty days, if you'll give them to me at 20% of what your normal appointment fee rate is." And I'm sure you wouldn't get one e-mail response, and – you might get some very unpolite ones, and some ones that are not quite political in response.

Or I doubt if anybody could go today and send an e-mail blast to 100 plumbers and say "I am writing to 100 plumbers, and I want to know what's your hourly rate is, and I will give you 20% of that if you will come and fix my leaky faucet." And maybe you could find somebody. Maybe somebody has got some spare time and says oh well, what the heck, I'll do this for a few bucks. But for the most part the answer is no, no, no. But they're service industries also, and they have a bright-line test that they're not doing it.

What's happened in our industry right now, and we're suckers for this because we know this and we utilize it ourselves – and that's something now I was reminded about by Danny Thomas at KOAM, one of our TV stations. And that is about what we call the doomsday close, okay? And that is essentially where – the doomsday close is, the sale ends tonight. Absolutely your last chance. Only two left at this price. The offer will not be repeated, don't be left out, buy it now because there won't be another chance. Even to the – only one left at this price.

And so what's happened is, we use this successfully when we go out, and people use this to sell merchandise but yet when it's used on us – and intuitively we all know it when we hear this, we go yeah, fine there will be another sale. There will be another this. But somebody comes to us and says "I've got $1,000, if you don't take it right this instant somebody else will," and we go "Oh my god, okay." And yet we are the same people that, when watching a TV show or listening to a radio spot that says "sale ends tonight," you're not going to go like, "Oh! My god, no there won't be another sale; we've got to take it now."

So what's happened here is – and this is something that the industry really needs to sit back and digest and think about – is that we are really, we intuitively know better, but the smell of fear, of missing out, is palpable. And my only advice is, from being around this for a long time, is guys, industry, recognize the fact that we are hoisting ourselves by our own petard. And the reason that we are seeing it down in this is because nobody has the gumption to say "no, this is what my product is worth." We are pricing it on a metric, and we're pricing it out Arbitron and buying Arbitron, only because it serves to drive down our price. Arbitron have yet to find brings up a cost for a point. It allows it to be driven down and we're using metrics is self-defeating. This is the dog chasing the tail. I don't know where it ends. But I ask in kind of a treatise to the industry.

This is a great industry. Broadcasting works, that's well; it's got every possible facet brilliantly polished. It's a little dull right now, but it will come back, and it will back with sure determination from broadcasters to understand, to be proud of the product that they have. And when we are in tra – when we are in a relationship business, and the client knows what we can do for them in terms of bringing business to their business, and if we don't do that, then we expect to be tossed out. When that occurs, price is not the issue. It is when it is put in somebody else's hands and we allow ourselves to be intimidated. I'm sorry, am I prattling on here, Sam?

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

No, I think that's good.

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

Okay. Short call. Sam has given you all the information, it's in the press release. I don't want to sit here and look like I'm on a soapbox. With that in mind, I don't think there is anything – did we think any – did you have any other questions?

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

No. I tried to answer most of them with – most of them were answered in my comments to start with, and tried to add the rest of them in where we weren't answering them.

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

Well, I took care of the ones that I had. Katy, if you are there, thank you all. Sam and I are here to answer questions. We thank you all for your faith in Saga Communications and your faith in the broadcast industry, and in the long term you certainly will not be disappointed. Katy, if you could do the end and wrap up, we would appreciate it.

Operator: Certainly. Ladies and gentlemen, this conference will be available for replay after 4 PM today through August 13th at midnight. You may access the AT&T Teleconference replay system at anytime by dialing 1-800-475-6701 and entering the access code 105208. International Participants dial 320-365-3844. Those numbers again are1-800-475-6701 and 320-365-3844, access code 105208. That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.