MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2010 Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Ed Christian, President and Chief Executive Officer, Saga Communications. Please go ahead, sir.

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

Thank you very much, Tanya, and welcome everybody to our Q3 call, our unscripted and sometimes what appears to be chaotic. There is definite structure nevertheless. And if I need assistance, I will push Sam's button and go that way. Speaking of that, here's Sam Bush to give the usual preliminaries.

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

Thank you, Ed. 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 Factors section of our most recent Form 10-K. Actual results may differ materially from those expressed in this 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 table. 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 third quarter numbers from the press release. Once again, we've only reported historical results, since there's no material difference in the same station and pro forma numbers.

National accounted for approximately 14% of gross revenue for the quarter, which was virtually the same as last year. Our networks net revenues were 1 million for the quarter compared to 1.1 million last year. This year, we had 242,000 in political revenue compared to 6,000 for the networks during the third quarter last year.

Station operating income for the networks, which excludes depreciation and amortization, was 93,000 for the quarter compared to 222,000 last year. Again, the networks are always reported in our Radio segment.

Political revenue for all segments for the quarter was 1.1 million compared to 239,000 for the same period last year. It can be broken out as follows. Radio, which includes the networks, was 747,000; and TV was 352,000 this year compared to 235,000 and 4,000 respectively for the same period last year.

As far as pacings go on revenue, October preliminary appears to have ended with a low double-digit increase in gross revenue, primarily due to political revenue, while November and December are pacing up mid to high single-digits, with the expectations of finishing the months mid-single digits.

Station operating expense was flat this quarter with last year, even though we increased advertising and promotional spending by a little over 200,000 this year.

As reported in the press release, capital expenditures in the third quarter were 1.1 million compared to approximately 700,000 during the third quarter of 2009. We're still estimating total capital expenditures in 2010 to be between 4.5 million and 5 million, probably closer to the 5 million mark.

We had 15.5 million in cash and short-term CDs as of September 30, 2010. As of September 30, 2010, our trailing 12-month leverage ratio, calculated as a multiple of EBITDA, was 3.1 times. Subsequent to the end of the quarter, we reduced debt by an additional 4.5 million, which then reduces our leverage ratio to three times. Total debt reduction in 2010 is 20 million. Keep in mind that we were able to reduce debt by 14.4 million as well in 2009. At this point in time, we intend to continue to use excess cash to pay down debt.

Two other quick items for 2010. We expect interest expense for the year to be between 5.7 million and 6 million. Our anticipated total tax rate going forward will be 41%. We now anticipate deferred taxes for 2010 to be between 4.5 million and 5 million. Keep in mind when you're comparing this year to last year that basically our entire tax provision last year was deferred with no current portion. This makes the comparison of certain of our reported numbers, including free cash flow, a bit odd year-to-year. Current taxes will vary based on the income in each quarter.

As a reminder, the other income that was reported earlier in the year was primarily due to 3.5 million we received relative to altering KAFE-FM's license in Bellingham, Washington. Please see our previous conference calls and SEC filings for more details on this transaction, if you're interested. Bottom line is that this was a nice addition to our cash position over and above our normal operations and did not impact our ongoing day-to-day operations from a Radio standpoint.

Once again this quarter, we asked for your questions to be submitted via e-mail. Ed and I will respond to those questions that we feel we can appropriately respond to later in this call. Ed, back to you.

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

Thank you, Sam. I wish I could really bring a lot of new light to what's been said by the other public companies. Pretty much we have to echo their sentiment, national is fine. With the exception that in our company, national isn't the 20% plus that some of the other companies have, because of our market mix. We primarily exist on locally-generated advertising, which is a plus in years when national isn't there.

Once again, national either is or is not, and it looks like it's going to be very hot right now. A report just issued by CAPS this morning shows significant increases in the fourth quarter boosted by strong category and political gains. Their first quarter pacings are showing it up 31% right now from last year for national gains, which is very encouraging for the industry.

So, I think it's safe to say that national has returned in our situation, again it doesn't make up the same percentage and it's always interesting when you take a low number and look at it in a percentage setting, because that kind of distorts results a little bit. With that said, as Sam told you, our revenues were up nicely. They fit in where we anticipated. We had one kind of soft month in there, which was characteristic for the entire industry. So, I can't say that we differ from what goes on with other companies.

Historically, we've watched our company march pretty much in lockstep with other companies in this sector. And it is a curious phenomenon that exists in the Radio industry that, if you look and paint the United States with a broad brush, you can see the waves that affects everybody pretty much the same. There usually isn't a lot that is out of sync with what we've seen in terms of where it goes.

CapEx was a little bit high; we had some television digital conversion in there. Other people reported less CapEx. I will tell you that that is in some respects a delayed time bomb, because this is an industry that demands attention to your plants with regular replacements and upgrades and there's only so long you can go. If you talk to, for instance, the RF manufacturers, the transmitter manufacturers, they will tell you that their orders markedly diminished in '08 and '09, all it does is push out the extension for the replacement of equipment.

We've tried to be falling in the thing where we can push off a little bit, but we recognize that if you don't have – if you're suffering from aged transmitters or aged equipment or aged automation systems, that you really run the risk of injuring your business. And it's not cheap to replace especially any of them, especially in an HD world for transmitters, where an HD conversion can run you all-in close to $200,000. An automation system or a system that programs your entire radio stations can run – it could be the same, depending on the size of the markets you're in.

I just cautioned you on that, because that's something that we know that we're out of sync with the other companies in terms of our CapEx. Other than that, if you look at some of – the companies – the markets that we're in, where they're performing well, we had some tremendous increases in Asheville; in Champaign, Illinois; in Manchester, New Hampshire; Norfolk, Virginia; Portland, Maine; Springfield, Mass; and our advert business was extremely good in South Dakota. That kind of gives you the highlights of the performing markets. Again, it's kind of a broad brush across our platform of stations, which is exactly where we are.

National is good. Local is coming along, it is building for us. We are going into fourth quarter in good shape. We look for next year at a 4% gross on the downside. It could be a little bit more than that. I'm pleased to see how business is breaking. It's still breaking late, but it's still breaking positive. Categories are coming back. The categories that have been hot for us, I mean healthcare; we are waiting for local automotive really to seize back in. That should be coming based on car sales.

And that's really what I think that I have, political was decent, especially on the TV side, and it's making for a very nice fourth quarter.

With that, we're going to keep it somewhat short today. We do have some calls – some questions here. And I think it can be best served by switching over to those. Sam, if you want to start on that?

QUESTION AND ANSWER SECTION

<A – Samuel Bush>: Yes. There's a number here that just are talking about numbers. We've got questions from a number of people and all of them seem to quite frankly to be quite similar question-wise. One of the questions was how the months in the quarter progressed and as Ed talked, we did have good months and we did have softer months, but the good news is every month was a lot better than last year. Our high month on a gross revenue increase was August with a high single-digit increase. July was mid single-digit increase. And September was low to mid single-digit increase. But, the net effect is that's more of a solid performance than we had in the second quarter where we had one month where there was no increase over last year.

Additional numbers that were asked about, one of the questions came up as to when do comps get tough and the suggestion was maybe December. In reality, our October, November and December of last year were almost identical month to month relative to a few dollars here or there as to what the total revenues is. So, I don't think our comps, from a comparison and a growth standpoint, start growing -- or start getting a little more difficult until we start comparing to 2010 numbers.

Gross political, the question was asked relative to gross political revenue in the fourth quarter. I already gave third quarter numbers in pretty good detail. I don't have a breakout by TV and radio or networks. But October, we did about 1.7 million in political revenue in the month; and in November, we'll do about 258,000. Now again, those are gross numbers off of pacings, not off of actual financial statements. So the actual number may vary a little bit from that number. That compares actually to October last year, we did about 171,000, and November last year, we did about 151,000.

That's pretty much the numbers questions. When it comes down to some of the questions relative to more theoretical, philosophical, one of the questions – well this is to Ed on what his thoughts is on – his current thoughts are on the potential performance royalty, as well as what he thinks of the NAB's current stance now that a term sheet is being circulated.

<A – Edward Christian>: Let's take the other easy question on People Meter and where we stand on that one.

<A – Samuel Bush>: Okay. That's another question that I hadn't asked yet.

<A – Edward Christian>: The question is, by us not having Arbitron ratings – what exactly?

<A – Samuel Bush>: Yes, the question was – is that Saga is not currently subscribing to Arbitron ratings in its Diary-measured and PPM-measured markets, which for the most part is accurate. And the question is, how would you characterize the impact that this has on our revenue?

<A – Edward Christian>: Well, actually it's totally accurate. We're not an Arbitron subscriber currently. The revenue numbers speak for themselves, so I guess it really hasn't impacted us. We are working with Arbitron. We are having dialogs with Arbitron. I'm reviewing information right now from MRC. We are a member of MRC, which is the accreditation body for the People Meter. I think in the last several weeks, Arbitron has shown some desire to enhance their accreditation potential. We're happy by that. We're watching the technology.

As far as the Diary is concerned, that's an entirely different story. I have been a very strong voice on that, but I think that the catchword here is that People Meter is becoming interesting from the point of view that they seem – they, Arbitron seems to be curing some of what we believe are the deficiencies in the product. If that continues on, and we should have some more information from them, then we would certainly entertain that. The Diary is a product that they're really focusing on themselves, since they recognize that they're soon to be up to 50 markets in the People Meter, and that is, I think that they attribute it to be the future of their company.

It hasn't affected us. Would we like it? Certainly. But we're principled in the fact that, though it might be the industry metric, we believe that the -- that we can at least challenge them to address some of what we think are the issues in the technology and the way the PPMs are kept – or not kept, but how PPMs are recorded and the habits of the PPM itself. I think that answers that. Do you want to talk – want me to talk about the performance rights?

<A – Samuel Bush>: Yes.

<A – Edward Christian>: I'll try to keep this brief. I've been involved in performers – well, actually in composers' rights for a quarter of a century or more with the Radio MLC, Music License Committee. I'm its current Chairman and we are in negotiations with both ASCAP and BMI. I think this qualifies me to have a certain amount of knowledge on performers' rights, performers' royalties, the law itself as it presents itself to this, and I take a contrary position to the NAB, because we on the Radio Music License Committee, which has a number of representatives from all the major groups, plus a well-grounded executive committee that represents major groups in smaller markets, are trying to bring down the music fees. We don't believe that we're an industry that just fortuitously – gratuitously, I'm sorry, gives away 1% of our net revenues on performer royalties. It's interesting to me to note that a trade organization, which represents 4,000 radio stations out of a body of 13,000 radio stations, speaks for the industry without even polling its members.

And I remember not too many years ago, when the Radio Music License Committee was having some financial problems as we were relying on simple donations to fund our efforts, we at one point in time approached the NAB about taking over the job of ASCAP and BMI and were [audio skip? representation because we felt that this would be something, and pardon the trite expression, in their wheelhouse. We were absolutely rebuffed and told that they were a trade association and had no business involving themselves in music royalties and that they felt it could even be a Justice Department issue and totally rebuffed any advances. Now this is admittedly a couple of decades ago, policy is policy, and we now see a trade organization involving themselves in closed discussions with the music labels. And we kind of wondered at it a little bit. That's our situation. And we also wanted a representation and we really think that perhaps, as the Radio Music License Committee represents more than twice as many people that we poll and we listen to and we hear from a regular basis, then perhaps there's more that the industry could speak up on their true feelings on this and really get involved in discussions.

The NAB certainly can do what they want to do, but we really don't have any say from our perspective because we only talk to ASCAP and BMI. As far as Saga goes, it's a tax – it's a levy on my profits, and I have a fiduciary responsibility to shareholders to not gratuitously give away 1% of my net revenues, and we will evaluate that. One of our colleagues in the industry says well, it's only x-millions of dollars to my bottom line. Every million dollars that we are able to take and put into some other things such as debt paydown makes us a healthier, stronger company. It allows us to look at opportunities. It allows us to do stock buy-backs. It allows us to do everything else. Rather than increase my cost of doing business, we're looking hard towards holding those costs.

Next year, it will cost us more to operate the company. That's a given. We reduced back quite a bit in 2009. So, we have to look at all of this and we also have to look at how we have historically run our businesses and the fees and concomitant services that we get and assess it into our mix. And because of that, we take a contrary position on this. That is to be expected. I think that I do not speak on a vacuum on this, that there are a lot of people that cover this topic and there are a number who are vocal and that ask for an audience, ask for a discussion, ask for the 4,000 members to be polled, ask for the entire industry to be polled. If a lobbying organization or a trade organization is representing their ownership, they shouldn't be afraid of doing something like that.

That's our position, and I'm speaking somewhat from a bully pulpit on this with a lot of years of knowledge of royalties and the law, and how it is regarded by other broadcasters. Sam, do we have another question here?

<A – Samuel Bush>: Yes. One of the questions, Ed, and we've talked about it in previous conference calls, was expenses were a little lighter than expected from one of the analysts in the third quarter and what do we think about expenses in Q4 in 2011? Q4, I can talk about that, and you touched on 2011, but maybe be a little more specific on it? Q4, you'll see expenses pretty much in line with where we are today. They may be slightly higher, because as I reported in my comments, we did spend 200,000 more in advertising or promotion in Q3. We are electing to spend money where we think it's needed and where we see fit, but going into 2011, we haven't finished the budget process yet, so we don't have any specific guidance. But I think, Ed, you can talk a little bit more about it.

<A – Edward Christian>: As I said, we certainly did reduce our operational expenses in 2009 and we're getting back with it in 2010, 2011 we hope to restore some of the deflation that occurred in the wages. That certainly is on our agenda, number one. We also need to address our marketing and promotion dollars, which we reduced during this time. And I will tell you that I think and I hope that the industry is beginning to redress their motto in terms of – well, it is time for us to do a fall campaign, a spring campaign, let's do TV, let's do outdoor, let's do whatever. And we would be remiss if we didn't look at all of the new social media and find ways to do it.

Let me give you an example, and this is not totally expensive. It involves contesting, and we did [inaudible] contest on texting a short while ago. And I did have a memo that I printed out this morning and I'm not going to go through the whole thing on it, it entitled "Holy Crap, Part 2" which shows you we are a little [inaudible] in terms of our internal communications here. But I'll just read you one line on this that we added 100,000 new text database members across 11 stations as a result of capturing their e-mails through a text messaging contest that we had. If I looked at the effectiveness on a cross-platform text messaging contest and the number of database names that we captured, which then could lead us to all sorts of other social networking and things with RP1s, it was a pretty impressive thing.

I urge other broadcasters to begin thinking in these lines of continuing to use other things such as television or outdoor to reach our audience, but I think we can do a really effective job and contain our costs and our growth by redirecting money into entirely new avenues. I'm just really impressed by this and the text messaging thing, and kudos to Jeff Vettrus and to Steve Goldstein and to all of our stations that participated in this. It's quite a thing when you can add that many people in just one quick blast and it asks you for several weeks, texting and capture that many names.

As I said, expenses are going to go up; we're going to control them. That is our job to do that. It is not our company here to run out and get large expenses, but like anything else, we do have to recognize our employees, we have to recognize what we're doing. We will continue to be ever diligent in that respect.

Sam, did we have any other?

<A – Samuel Bush>: We have one last question, and I'm not sure there's a real answer to this, Ed, but I like the answer you gave me when we were talking about it earlier, prior to the call. You guys seem to trade at a very low multiple of BCF, EBITDA, free cash flow, even relative to other radio groups that face your same challenges. What do you think of this?

<A – Edward Christian>: Well, I told you then, and I'll just give you the same answer. Two words: Rodney Dangerfield.
<A – Samuel Bush>: I like that.

<A – Edward Christian>: That's essentially – that's what we are. And he made a living doing that.

<A – Samuel Bush>: He got no respect.

<A – Edward Christian>: And he got no respect, but he made a very good living and everybody knew his name. And thank you, that's up for others to judge, whether they have respect for him or not. We're run a good company.

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

And I appreciate it, Tanya, if you're there, we're going to wrap this up, and if you have any other comments, you can do that to wrap up the call.

Operator: Thank you. Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.