PARTICIPANTS

Corporate Participants

Edward K. Christian – Chairman, President & Chief Executive Officer
Samuel D. Bush – CFO, Treasurer, SVP & Head-Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the First Quarter 2011 Results Conference Call. At this time, all lines are in a listen-only mode. [Operator Instructions] As a reminder, today's conference is being recorded.

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

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

Thank you, and good afternoon, everyone. It's a little bit after two for our Q1 conference call for Saga, and with the preamble and information as historic, here is Sam Bush.

Samuel D. Bush, CFO, Treasurer, SVP & Head-Investor Relations

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 Factors 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 table.

As you all saw from the press release itself, free cash flow increased 42% or almost $1 million. This was attributable to a number of factors, including our 2.6% increase in net revenue with the corresponding increase of only eight-tenths of a percent in station operating expense.

Additionally, since our debt outstanding has been reduced by $24 million since the end of the first quarter in 2010, our interest expense for the first quarter of 2011 was $362,000 less than our interest expense in the first quarter of 2010. Likewise, our income tax expense for the first quarter of 2011 was $1.16 million less than the last year's first quarter. This was primarily due to the $3.5 million one-time payment we received for our frequency coordination of one of our FMs, which we received last year and as previously discussed.

National accounted for approximately 14.3% of gross revenue for the quarter, compared to 13.6% last year. Our networks revenues – net revenues were $755,000 for the quarter, compared to $992,000 last year. Last year, we had $132,000 of gross political revenue, compared to no political revenue for the networks during the first quarter this year. The networks are reported as a part of our radio segment as they always are.

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Gross political revenue for all segments for the quarter was $99,000, compared to $241,000 for the same period last year. It can be broken out as follows: radio was $98,000 and TV was $1,000 this year, compared to $210,000 and $331,000, respectively for the same period last year.

While first quarter station operating expense were up only eight-tenths of 1%, we expect overall station operating expenses to be up approximately 3% for the year. We are continuing to diligently manage expenses, however, there are a number of areas where some expense increase is warranted, including the partial restoration of the payroll reduction that all Saga employees took during the downtown, which was effective April 1st of this year. Additionally, we expect corporate expense to be approximately $8 million for the year.

As reported in the press release, capital expenditures in the first quarter were $1.2 million, compared to $845,000 during the first quarter of 2010. We are still estimating total capital expenditures in 2011 to be $5 million.

Saga continues to have a very, very strong balance sheet. Since the beginning of 2009, we have reduced our bank debt outstanding by $43.4 million. Additionally, we had $13.8 million in cash or cash equivalents on hand as of March 31, 2011. This has actually increased to $14.9 million of cash or cash equivalents on hand as of yesterday.

As of March 31, 2011, our trailing 12-month leverage ratio calculated as a multiple of EBITDA was 2.5 times. We are currently working on putting in place a new five year credit facility with a number of banks. Once we have finalized the facility, you will find the terms and conditions to be very competitive and favorable. I wish, I could say more about this, but we are still a few weeks away from finishing the facility.

Two other quick items; for 2011, we expect interest expense for the year to be between $4 million and $4.5 million. The exact numbers will be dependent on the final negotiations of the new credit agreement and interest rates remaining relatively stable.

Our anticipated total tax rate going forward, will be 41%. We anticipate deferred taxes for 2011 to between $5.2 million and $5.7 million. Current taxes will vary based on the income in each quarter. Unlike what the AT&T operator did say about a question-and-answer session at the end of the call, but once again this quarter we did ask for all your questions to be submitted via e-mail prior to the call, and 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, Chairman, President & Chief Executive Officer

Thank you, Sam. I think if I look back at Q1, I had hopes going into the quarter, albeit a little bit stronger than it turned out to be. But I will tell you, and it's not an excuse, we had just wicked winters in New England and also in the Midwest and I do think that on a local basis inhibited us in a lot of our relationships selling. And we just didn't have the demand [indiscernible] (5:35) away from the retailers because of the winter weather.

In terms of our national and local, the balance on that national revenue was up, local revenue was up, so we actually had it in both places there. They are – TV national was up, and our TV local was also up. So, I can't look and say that we didn't have it both between national and local, but some of the other companies have reported that they saw a soft national, but national for us is not the driver that it is with the larger companies. But it becomes a large number in a much smaller environment.

Q2, and I've said this so many times, and it just always kind of I want to say amazes me, but it's just is predictable in its unpredictability that when we saw a couple of weeks ago some softening in Q2 and a loss of visibility, it then became exacerbated by – well, let me just put it this way, we're not having a Toyotathon this month in the Saga stations. We dropped a lot of revenue in May with our car stores, which had been kind of a quiet category for us in '09, which came back in '10 and started returning even more in '11.

But it was primarily, again, as I said, on the Japanese automakers just didn't have the product here. And that's when we stopped – when we see the big hits occur from a spending for the car stores.

Now, with that said, I think, that's an aberration, obviously that money does come back at some point in time, perhaps not to that level, but I certainly know that once product and delivery are normalized between the automotive companies and the plants and the dealers, then we should be in better shape dealing with our car stores. That's a category that did kick in for us and hurt a little bit.

I talked about where we are in Q2, and we have seen a softening. There's no question about that. Do I think that we'll still bring in the year? Yes, I don't see those dire signs, I see the answer as we turned down a little bit, maybe the economy is working in certain areas for us. All of these are the factors that really determine what the advertising and broadcast and radio and TV industry do this year. There aren't the perils out there that there once were. There are some – always some dips and reduced visibility.

But on balance, I think that 2011 will be a decent year, and I think that's the word that we can all look at, and we have learned to change our level of expectations, and we have really worked hard on operating efficiencies and management and building up our book of business.

And it really gets down to one of the old basics in broadcasting of – in selling practices. If you do your cold calls, if you do your business prospecting, if you do your presentations, if you do your spec sponsor, if you do all the other things, and do and repeat, do and repeat, then you're going to have success.

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QUESTION AND ANSWER SECTION

<A – Edward Christian – Chairman, President & Chief Executive Officer>: We have some time for some questions, today. Sam, if you want to you take Jim Boyle, and by the way, congratulations to Jim Boyle, and did you see that today in the -

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Yes, I did in the Wall Street Journal.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: Wall Street Journal, Jim was named as an outstanding stock picker, which we – one of five, I think, in the -

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Yeah, in the advertising and marketing section, I believe it was.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: Yes, so kudos to Jim. Was the recent slowdown just auto-related, or did cancellation surface inside some other categories. No, I think, it's – auto was the driver. That's the one that we certainly saw, and I just kind of like deleted in the last day or so about 25 different e-mails from our sales managers that are on a listserv, and you go back and forth, where they're all talking to one another about the foreign car cancellation, and they weren't domestic, they were foreign. That drives – those are usually the foreign imports are a good advertiser in that sector for us in that. But it was not, it was an automotive blip that caused a little bit of softness there.

Very good question, number two, Jim. Online digital revenue, which we started buying newspapers earlier than radio apparently did not rescue their revenue growth. Why should it become much more than another NTR comparable segment for radio industry? How much of it is cannibalization?

Okay. I think there is two differences here, and then we will get to the cannibalization thing. One is that our websites are content -driven and everything else like that, are more interactive with our audience than newspaper.

Newspaper, they would go there for news, which is diminishing product, radio on the website features a much more in-depth in-breadth type of experience for people. So, I think there was a difference there. But on balance, it's a very good question. How much of it is cannibalization? Boy oh boy, I'll tell you. We struggle with this, and I think in truth if we kind of peel the corners back on the surface of a few other broadcasters, they might be struggling, too.

Because in truth, we like to say that every order that comes in has to have [indiscernible] (11:03) component of an Internet strategy or whatever might be attached to it. But if the sales person is out there, and they know what the budget is, and they are in-charge of allocation, and they do retrigger the numbers to bring in the Internet order, that's between them and their god at that moment in time because the sales managers can't be out there – our sales managers can't be addressing all of the clients and say, is this a real Internet order? Did they really sell you through on this? Or did they say, listen, let's take 100 bucks off the schedule or I'll keep the schedule the same and add those in.

There really aren't the checks and balances in the industry, and people might like to talk about this. We're still dealing with a small percentage part of it. Very good question on cannibalization, one that we watch, and one that we're studying, because we too want to know the answer without becoming skeptics of our sales practices.

Last year, have you noticed other groups adding inventory load?

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No. Well, I heard of one story, I'm not sure that they did, but on balance, it has not been a aha-they're-adding-inventory discussion in the industry.

Have average rates climbed?

Well, I don't necessarily believe [ph] SQOD (12:25) and I don't believe the [ph] SQOD figures and I think – I don't know how they gather theirs, but this is a business that we're certainly going to have discussions about it at our managers meeting coming up in a few weeks about rates and rate movement, and what determines it. Some other companies have gone into hospitality type of rate management, which is on-demand, the earlier in the week, later in the week and all sorts of bells, and whistles and structures and constantly trigger with that, and we are watching to see how that occurs, and how that works out for them.

In the past, I will tell you, when I first started in radio, and I think I shared this story before, I asked the owner of the station – I was a young neophyte salesman at a station in Detroit. It was owned by a sole proprietor, and I was starting in selling, and I said how, Mr. Robinson, how do you determine what you charge for radio advertising? And he said, you charge until people stop paying, and then you know you're charging too much. And he said that's the secret in the industry. There is no rhyme or reason how you set advertising rates across the country or in markets.

And if you look at it and you look at try to find out an intellectual study on rates between Topeka, Kansas and Springfield, Massachusetts, not that we're there, but any markets like that, you'll find variances all over the place. It's what the market will pay.

Are advertisers placing business earlier or later?

Well, I can't imagine them placing it much later because we're down to the wire now. The turnaround time in terms of orders in national is 24 to 48 hours. So, that's about as close as you get. Obviously, local has a longer lead time than that.

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Marci has some questions for you too, Ed. She had pretty much the same thing about auto -

<A – Edward Christian – Chairman, President & Chief Executive Officer>: Is there one for you?

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Yeah. We were talking about one of ones is you're forecasting 2011 CapEx at $5 million – this comes from Marci Ryvicker, Wells Fargo – how long can you maintain that level?

Marci, I think the answer to that is as long as we're not in a heavy acquisition mode, if you go back and breakdown our CapEx year-over-year-over-year even back when we were spending $10 million, $9 million in CapEx, the sustainable CapEx was always in that $4 million to $5 million range. The additional monies were being spent either on acquisition CapEx where we were bringing acquisitions up to our standards or on certain new things such as HD on radio or high-def on television. But the $5 million sustainability for just maintenance CapEx and routine CapEx, I don't think is a bad number.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: I know – if you look at just costs that we've experienced recently, where – example where you're going to have to replace the line on a 1200-foot tower in Des Moines, and our cost on that is...

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: About $80,000.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: $80,000, that was anticipated CapEx. So, you look at that, I mean, by the time, transmitters are $150,000 or more by the time you get into all of that. I don't think $5 million is a high number. I think it's actually a low number because we can easily look for another $1 million if wanted to put into it just in IT and RF and AF alone and building improvements and enhancements on that. We answered, I think, about all the cancellations.

Anyone taking the cancelled inventory, a good question. This isn't an industry that is able to charge a restocking fee nor are we able to say to our advertisers, oh I'm sorry, it's within 48 hours of placing the schedule and we have to charge you -

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Price has gone up.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: That price has gone up. You have to pay for it. And what happens on something like this. It's usual when the cancellation comes in. It's pretty short notice. It's not on cancelling something several weeks out, usually much shorter lead like, oh my god I'm down to the wire on this and I don't need it, I don't want it, I can't use it, whatever it might be. And for us then what happens is not that we have unsold inventory, but we have the time crunch to try to package it properly.

Hopefully in a lot of our stations, there are some standby lists, because a lot of times if a manager might know that he can sell 102% of inventory, and so there will be a factor, just very much like the airlines, whoever sell the flight by a hundred – I think it's 105% or whatever it is. That happens, but it's usually – there's a lot of times you'll just lose the inventory and play another couple of tunes in the hour.

Why was television revenue is so strong in Q1?

Don't know, did well, or maybe we just sold -

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Did well. Local revenue on the television side was very good for us in all of our markets in Q1, but I don't know that we can point any particular reason for it.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: And a final question here, given your leverage is 2.5 – actually I think it's a little lower than that now.

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Yeah, it will be.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: Yup. Any plans for a dividend or share repurchase?

There are three things we can do, probably four. One, we certainly look at stock buyback over the course of the history of the company we have had a number of periods where we have repurchased our own stock, which we felt was a good investment.

We certainly look at what other companies in the industry have done on special dividends. This is an ongoing, but it's a special dividend. We'll continue to pay down some debt. I do believe that there is a threshold point in any business where paying down too much debt is not in a proper fashion. I think any business has to have a certain level of debt, and we're getting close to that point now because we are way below the thresholds that the banking system, even in a constricted environment believes, is a normative value.

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And the fourth is acquisitions that we had certainly entertained if we'd found any. No, no. We were not invited to bid for the Citadel assets, and we didn't have any expenses related to that. If – in fact, I don't think we've been invited to bid on anything.

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Recently...

<A – Edward Christian – Chairman, President & Chief Executive Officer>: No, no. We were a stalking horse once when we just stalked out of the room, I think.

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: I think we did.

<A – Edward Christian – Chairman, President & Chief Executive Officer>: But certainly we do acquisitions if that presented itself. But again, it has to be matching what our company is valued at versus the expectations of somebody else. Gone are the days that I think if your stock is trading at 18 times, you can buy something, if it's at 16 times and it's accretive. Those metrics proved to be the ruin of a number of companies, if you look at the carnage from years ago. But those are really the things we are looking at, just managing the company, just prudent management and evaluating all of our options when the time comes up. That's what we follow. Sam, have you got any other?

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: No, I think that – that pretty much covers it for today, Ed.

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

Well, thank you all for joining us and we'll see you next quarter if there is some exciting things to tell you. Thank you all.

Samuel D. Bush, CFO, Treasurer, SVP & Head-Investor Relations

Thanks a lot.

Operator: Thank you, ladies and gentlemen, that does conclude our conference for today. Thank you for your participation, and for using AT&T's Executive Teleconference. You may now disconnect.

Samuel D. Bush, CFO, Treasurer, SVP & Head-Investor Relations

Thank you.

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