Saga Communications, Inc.

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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. Welcome to the Second Quarter 2011 Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ed Christian. Please go ahead.

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

Thank you, Greg [ph]. Good morning, everybody, as has been our habit. Thank you for joining us on the call here and with the preamble and all the good crunchy detail I'll turn things over to Sam.

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

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 conference call.

This call will also contain a discussion of certain non-GAAP financial measures within the meaning of Item 10 of Reg SK. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached in the selected financial data table.

You have our second quarter numbers from the press release and supporting schedules. Even with the continued economic volatility, free cash flow increased 10.2% for the quarter and 19.3% for the first half of the year. We were able to hold our own in revenue with net revenue increasing a little less than 1% for the quarter compared to last year, bringing the first half of the year in at a little less than 2%.

For the first half of the year we had $336,000 in political revenue compared to $691,000 for the same period last year. For the second quarter we had $237,000 in 2011 and $450,000 in 2010. Netting political out of the second quarter, our net revenue increase would have been 1.5%. Going forward we did $1.1 million in political in the third quarter and $2.4 million in the fourth quarter.

On a month-to-month basis for the quarter net revenue was basically flat in April and May with June being up a little more than 2%. As indicated in the release, there are a couple of unusual items reported in the release. First, we reported as Other Income a $3.6 million one-time payment for a frequency coordination of one of our FMs which we received in the first quarter of 2010. This year in the second quarter we completed a new senior debt facility which impacted the second quarter as we wrote off $1.3 million in previously unamortized bank fees.

From an operating standpoint we reported an increase in station operating expense of $466,000 for the quarter and $642,000 for the six-month period. This was predominantly due to an increase in our healthcare expense of $285,000 for the quarter and $775,000 for the six months. It's hard to anticipate whether this increase in healthcare expense will continue at the same pace for the rest of the year.

Historically we had a $1 million lifetime cap on any insured individual. We have several individuals that had previously reached this cap and were no longer on our insurance as they were now being covered by Medicare. Under the new health insurance regulations we had to take these employees back under our plan with no maximum lifetime coverage cap. As a company that self-insures for healthcare, we have always had a cap for catastrophic claims. Last year this cap was set at $100,000 for insured and this year it was increased to $125,000. Even with this increase our insurance company raised the amount we pay per insured to buy the cap at close to 10%. If we had not raised the cap by $25,000, our increase would have been closer to 40%.

So far this year we also have had several individuals approach this cap due to catastrophic accidents, increasing our healthcare expenses year to date significantly. Some years we face this issue and others we don't have anyone reach the cap. Again, it's hard to anticipate or project whether we and you should expect this healthcare expense increase to continue for the rest of the year. Basically the increase for the six months was $490,000 in the first quarter of the year and $285,000 for the second quarter. It's hard to develop a trend at this point.

Additionally as we earlier reported on April 1, we reinstated half of the previous 5% pay cuts that all our employees incurred in 2009. We estimate that this reinstatement added approximately $150,000 to $160,000 to our expenses for the six-month period. Overall we continue to monitor our expenses diligently and conservatively expect overall station operating expenses to be up 3% for the year.

National accounted for approximately 14.8% of our gross revenue for the quarter compared to 14.1% last year. Our networks' net revenues were $1.3 million for the quarter compared to $1.2 million last year. Last year we had $124,000 of gross political revenue compared to $60,000 for the networks during the second quarter this year. The networks are reported as a part of our Radio segment.

Gross political revenue for all segments for the quarter was $237,000 compared to $450,000 for the same period last year. All our political revenue was related to our radio and network operations this year. This compares to $432,000 for radio including the networks and $18,000 for the same period last year for television.

As reported in the press release capital expenditures in the second quarter were $1.4 million compared to $1.3 million last year. Tax law now allows us to take a bonus depreciation deduction in 2011 on qualifying purchases which results in the items total cost being expensed in 2011 from a tax perspective. Due to the availability of this potential tax benefit, we are planning to spend a little more on capital items this year and now estimate total capital expenditures in 2011 to be between $5 million and $5.5 million.

We're very proud we also closed on our new $120 million credit agreement on June 13th. The facility includes a $60 million term loan and a $60 million revolver. The loan facility now has $88 million funded under it. The applicable margin for a LIBOR loan is based on a grid that ranges from LIBOR plus 275 basis points to LIBOR plus 150 basis points depending on the company's leverage ratio. The current applicable margin is LIBOR plus 250 which is 50 basis points reduction to the rate that was being paid on previous facility. The lowest LIBOR margin is available when Saga's leverage is below 1.75 times. Leverage of course is determined by dividing four-quarter trailing EBITDA into the debt outstanding under the facility.

This new agreement has a five-year term and calls for amortization of $750,000 a quarter but only until such time as Saga's leverage is below two times at which time required amortization stops altogether. This agreement also gives us very broad leeway in the use of our excess cash. It allows for up to $25 million per year in acquisitions or up to $20 million per year in dividends or stock buy-back. This is of course subject to being [indiscernible] (7:10) with our debt covenants on both [indiscernible] (7:12) and pro forma basis.

Two other quick items for 2011, we expect interest expense for the year to be between $3.5 million and $4 million. Our anticipated total tax rate going forward will be 41%. We anticipate deferred taxes for 2011 to be between $5.2 million and $5.7 million. Current taxes will vary based on the income in each quarter.

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

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

Thanks. Sam is our market manager and finance consultant. Say, Sam, I just get tuckered out listening to you.

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

I get tuckered out doing it too.

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

Too much information. Here we go. Okay. Listen, you know, thinking while listening to you there. I'm just thinking it would be a great idea thinking if we pulled up our production records on the case, and record all of the broadcast conference calls [indiscernible] (8:11) and then edit and splice, if that's the right word, thinking about it myself, I use the word splice, them all together as kind of sound bites from each company and playing it back as one conference call. So that's what you'll hear [indiscernible] (8:21) control, it's kind of a unanimity of thought about our industry and performance. It would be kind of interesting to listen to that.

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

It would be quite amusing as well.

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

Well, unfortunately I think as you heard from Sam, we're living in a slightly up world or a [indiscernible] (8:40) but it's not because of the dynamics of the industry. The dynamics are certainly not strong. They're dated because we are a mirror of thoughts into our – I've said this before, thoughts and feelings of our country.

Take a second here and think about a map of the United States with about 14,000 points of light and they're blinking daily or monthly, and they're blinking shades of green, yellow or red. And you can watch patterns develop and via your bank of business you can report predictive feedback, feelings, thoughts or trends of consumers and business.

That's really what's happened to the radio, and we're just kind of a mirror of what's going on, and we for some reason have always had the ability beforehand to see what's going on. So there are patterns, large unanimity of thought and it's always been interesting, as I said, what you hear on one conference call is pretty similar in thought all the way across.

Now right now, the map is kind of blinking yellow, no question about that, and that's for caution. But the good news is, there's also quite a bit of green, but we are not showing any red. As far as the industry, that's, I think, pretty good and it's for us the same way.

Sam has told you all of the detail, a lot of detail on our last quarter, but what I can add, and I believe a couple of points of reference on this. I think specifically our long-term monsoon in Columbus, Ohio is over and without Warren Lada, our Senior Vice President of Operations who served as GM there while we waited on a non-compete for our new manager. We've recycled attitudes of people and the stations are now outpacing the market. That's been an issue for us for some time and I think we have finally got that back on track.

We believe similar results will occur Norfolk with the addition of Wayne Leland as our new Market Manager. We've known Wayne for years and we've finally been able to recruit him from Citadel where he served as regional manager for well over a decade.

One issue we're still resolving is the impact that a change in measurement methodology has made to our urban AC in Milwaukee. We have observed this effect in varying trade and press reports. This is not a new issue with broadcasters with an urban focus. They've been very vocal on this and we just have to figure it out and program what the [indiscernible] (11:01).

Let's talk for a second about visibility, where we're going and what it is, and we'll get into a little bit more detail on that. But I feel like the weather man whose computer has broken right before airtime, so my forecast is kind of like partly cloudy with a chance of summer rain or possibly rain or sun or just partly cloudy. So that will get [indiscernible] (11:25). And that's about all you could say at this point.

So those who will tell you that where we're pacing up because it changes with such rapidity. Yes, we're pacing up and we're in an interesting time where we have July and then August and September. We'll get into that.

A final thought on quarter three, I haven't seen other comments from broadcasters, but I've heard [indiscernible] (11:52) July where it was similar. And frankly I felt like I'm in France in August with all the businesses being closed. July came along and I think if you asked around you'll find that this is [indiscernible] (12:03) it was a very tough month for a lot of companies because suddenly it's like, duh! What happened to us? What is going on here? I kind of refer to it as vacuous [ph] July. And all of our managers are extremely frustrated because they're doing good things and they're doing things right and their business just wasn't there in July.

It came back in August. It's coming back in September. My prognostication for the rest of the year is essentially that we have to get used to eating at small plate restaurants. It's going to be that way for the balance of 2011. We started out with a lot of hopes and a lot of anticipation and a lot of eagerness and that really so far has been fighting a lot of daily battles.

So I don't think it's – and let me tie this together if I can for a second here. I was looking at, oddly enough, appliancemagazine.com which serves the appliance industry. [indiscernible] (13:00) but I get some interesting statistics for the month of July.

We sit here [indiscernible] (13:03), oh my God, the world is over or what it is. I was looking at this and I was kind of shocked by this that for July alone the sale of electric ranges were off 14%, electric ovens 47% if you get into a gas range, it's 22%, refrigerators off 16%. For the year it's the same thing. I mean this is not just for the month but also the year-to-date. And washers and dryers

14%, 12% for the year. I'm not trying to talk about that but let me just put in one thing I noticed here because I've also got figures on furnaces which were off 14%.

But here's one that kind of got me and that's – let me find it microwaves. This is something that's a disposable unit. In July, microwave sales were off 37%. Well, why does this happen? Do we as an industry sit around and say oh my God, it's over for microwaves? I mean microwaves are done. No longer will we have popcorn? We should short Stouffer's Lean Cuisine because nobody's buying microwaves?

This is a thing that I'm sure they can sell in that industry and if you look at our industry segment, it's a tough match. We have to look at around at what we're dealing with, what the quantum effects are which are affecting how we do business. And I'm not disparaging the appliances but at the same point in time, when we're heading for huge problems there, they're also trying to figure out exactly what we do and what's causing this issue in the economy. But we all know what it is and there's stuff like here that we talk about it that I think you all pretty well understand.

We'll get on to some questions here. I think Sam answered a couple of them here but one question that I have from [indiscernible] (15:10) if I can find that, which...

QUESTION AND ANSWER SECTION

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Yeah. Jim and Marci both asked a question about car sales?

<A – Edward Christian – Chairman, President & Chief Executive Officer>: Yeah. Let me just tell you right now: I think that there was a headline in the paper I saw the other day that says, "Car sales ease off as buyers await deals." And I think what we're seeing right now is yes, we're hitting automotive. Yes, we pay stuff for automotive. But in the interim, what you see right now is that consumers believe that there are deals coming up. [indiscernible] (15:41) impact to try and do that and to do that. And even though the car sales in July for certain models, some were down quite a bit, if there's an anticipation of a sale coming up, you're going to see consumers hold off with their spending and buying of the cars. And that certainly also effects the dealers and their spend.

Do you see more or less rate cut in 2011 versus prior years? On a national basis I think that the more inventory you have, the more open you are to package and a diminution in rate. There's also the question that we've talked about before about mass quantity of buyer inventory that's available that's priced on a daily liquidated basis that I do believe provides some economic damage to our industry which is much higher inventory through [indiscernible] (16:30). Our posture here is that we have been canceling longer contracts, returning to a cash metric, which we believe in because we value our inventory higher than we would and paying cash volumes versus [indiscernible] (16:43) second party to dispose of in a [indiscernible] (16:46) spot, we believe is going to economically benefit us in the long run.

Will radio ever get revenue from [indiscernible] (16:56) or is it likely to remain solely ad supported? Good question, [indiscernible] (17:02). We are already doing that at certain events that we have where we're monetizing the events. In fact, I talked to one of our promotion directors the other day and I said to him, I'll tell you what. If you're looking for ways to grow career and do things, then start thinking about how we can create wealth on our promotions and marketing.

And I'll tell you what. I'll give you a taste of them. You can be our resident director in promotion enhancement. So if you come up with a way without denigrating our product or denigrating what we're trying to do, without pandering to something to make it looks like we're crass, and every inch of our signage was for sale or whatever, if you can find a way to generate through [indiscernible] (17:40) additional revenue or ideas, and there's a fine line there again without sacrificing the integrity of the product, then let's do that. Let's look at for the third or fourth income stream that we have. We have already digital. We have [indiscernible] (18:00) with our streaming revenues. And let's now, we already have a lot of non-traditional event revenues that are coming in. Let's see if there's another wedge on that. So that's a good point, [indiscernible] (18:09), that you bring up there.

Basically we always had that answer for it. I don't see that changing. I don't see any other real metric or model that we can add. The cold heart of day, we sell spots and that's what it is and we do a pretty damn good job of doing that and we always believe that in times like this there is a flight to quality and we're seeing it in some of our markets where some of our competitors are not doing as well as we do.

Do you have a question from Marci or anything that you want to break out, Sam?

<A – Samuel Bush – CFO, Treasurer, SVP & Head-Investor Relations>: Marci had asked a couple of questions, I think several of them have already – are already answered. I know one of the questions was she was asking about auto in terms of cancellations, and I think our situation is that we've not seen a lot of cancellations. We've just seen a little bit of slowness in the auto, particularly from the Japanese auto makers as you hear stories that they don't have the inventory to sell and they don't want to be advertising when they can't bring product to the market. And that's in the process of being changed. Obviously the Japanese are back into full steam or pretty close to it relative to build and delivery. It's just going to take a while to get the pipeline open again.

She asked a similar questions about ad rates in the environment, which you've already spoken about. And then I think her last question that we haven't talked about yet is how, Ed, you were seeing the mergers and acquisitions market from the standpoint with the Bonneville deal, the Cumulus-Citadel deal. Those are obviously significantly different than the types of deals we do, but are we seeing any impact on our middle market type deals from that?

<A – Edward Christian – Chairman, President & Chief Executive Officer>: I think the Bonneville deal was a long-term plan on their part, to decide what the church philosophy is in terms of operating a commercial radio station. And frankly, doing more as a company, they're perfectly positioned to do that. A wonderful thing for them. I look at that more as an aberration in the industry rather than a trend. The deals that I've been seeing that are occurring right now are basically structural ones, where you're finding private equity getting back in and either buying debts, the debt of the company, and then trying to get in the back door entrance this way.

In terms of the trading market itself, there has been very limited velocity or volume on that, strictly because we don't have the bank necessary [indiscernible] (20:30) to do so and if the banks are lending to you at a max 4 or 3.5 times your leverage, then what you're looking at is a transaction requires eight or nine time whatever the number is to purchase, you've got a big spread and a wide delta there and that is what is inhibiting the [indiscernible] (20:51). As a result [indiscernible] (20:52) anything on the market, limited inventory, stuff that's out there is not of particular importance to how we do this and there's still a lot of companies.

Then again, a lot of private equity firms have refrigerated and in some cases even frozen the assets that they now own and I think there's hundreds of licenses that are quietly controlled by the finance industry or the private equity industry that are just sitting patiently waiting for a recovery to then identify what they're going to do with the properties. And that's kind of the story on what it is. I think that pretty well takes care of it.

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

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

And can you think of anything else? Greg [ph], if you're there, you can just wrap it up for us, that will be good. Thank you all for dialing in today and as usual, Sam and I here in the office, 313-886-7070 if you have any calls or questions, just pick up the phone. Operator, if you're standing by, Greg [ph], go ahead. You can wrap it up.

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. You may now disconnect.