

EMMIS COMMUNICATIONS CORP

Form 10-Q

October 11, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2012

EMMIS COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State of incorporation or organization)

0-23264

(Commission file number)

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35-1542018

(I.R.S. Employer Identification No.)

ONE EMMIS PLAZA

40 MONUMENT CIRCLE, SUITE 700

INDIANAPOLIS, INDIANA 46204

(Address of principal executive offices)

(317) 266-0100

(Registrant's Telephone Number,

Including Area Code)

NOT APPLICABLE

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, and accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of each of Emmis Communications Corporation's classes of common stock, as of October 1, 2012, was:

34,249,845 Shares of Class A Common Stock, \$.01 Par Value
4,722,684 Shares of Class B Common Stock, \$.01 Par Value
0 Shares of Class C Common Stock, \$.01 Par Value

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|----------------------------------|-----------|--------------------------------|------------|
| | 2011 | 2012 | 2011 | 2012 |
| NET REVENUES | \$ 61,344 | \$ 57,569 | \$ 118,470 | \$ 110,287 |
| OPERATING EXPENSES: | | | | |
| Station operating expenses excluding depreciation and amortization expense of \$1,692, \$1,001, \$3,398 and \$2,092, respectively | 50,656 | 44,047 | 98,061 | 88,879 |
| Corporate expenses excluding depreciation and amortization expense of \$282, \$489, \$546 and \$950, respectively | 2,969 | 4,161 | 10,304 | 9,133 |
| Impairment loss | | 737 | | 11,708 |
| Depreciation and amortization | 1,974 | 1,490 | 3,944 | 3,042 |
| Loss (gain) on sale of assets | 795 | (6) | 792 | (10,006) |
| Total operating expenses | 56,394 | 50,429 | 113,101 | 102,756 |
| OPERATING INCOME | 4,950 | 7,140 | 5,369 | 7,531 |
| OTHER EXPENSE: | | | | |
| Interest expense | (6,277) | (7,277) | (11,853) | (13,444) |
| Loss on debt extinguishment | | (601) | (1,478) | (1,085) |
| Other income (expense), net | 348 | (195) | 342 | 109 |
| Total other expense | (5,929) | (8,073) | (12,989) | (14,420) |
| LOSS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS | (979) | (933) | (7,620) | (6,889) |
| PROVISION (BENEFIT) FOR INCOME TAXES | 727 | 67 | (1,963) | (4,266) |
| LOSS FROM CONTINUING OPERATIONS | (1,706) | (1,000) | (5,657) | (2,623) |
| (LOSS) GAIN FROM DISCONTINUED OPERATIONS, NET OF TAX | (2,916) | 41,208 | 342 | 39,958 |
| CONSOLIDATED NET (LOSS) INCOME | (4,622) | 40,208 | (5,315) | 37,335 |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 1,392 | 1,217 | 2,744 | 2,479 |
| NET (LOSS) INCOME ATTRIBUTABLE TO THE COMPANY | (6,014) | 38,991 | (8,059) | 34,856 |
| PREFERRED STOCK DIVIDENDS | 2,563 | 910 | 5,086 | 1,806 |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$ (8,577) | \$ 38,081 | \$ (13,145) | \$ 33,050 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)**

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|--|----------------------------------|------------|--------------------------------|------------|
| | 2011 | 2012 | 2011 | 2012 |
| Amounts attributable to common shareholders for basic earnings per share: | | | | |
| Continuing operations | \$ (5,689) | \$ (3,127) | \$ (13,536) | \$ (6,908) |
| Discontinued operations | (2,888) | 41,208 | 391 | 39,958 |
| Net (loss) income attributable to common shareholders | \$ (8,577) | \$ 38,081 | \$ (13,145) | \$ 33,050 |
| Basic net (loss) income per share attributable to common shareholders: | | | | |
| Continuing operations | \$ (0.15) | \$ (0.08) | \$ (0.35) | \$ (0.18) |
| Discontinued operations, net of tax | (0.07) | 1.06 | 0.01 | 1.03 |
| Net (loss) income attributable to common shareholders | \$ (0.22) | \$ 0.98 | \$ (0.34) | \$ 0.85 |
| Basic weighted average common shares outstanding | 38,210 | 38,859 | 38,205 | 38,819 |
| Diluted net (loss) income per share attributable to common shareholders: | | | | |
| Continuing operations | \$ (0.15) | \$ (0.08) | \$ (0.35) | \$ (0.18) |
| Discontinued operations, net of tax | (0.07) | 1.06 | 0.01 | 1.03 |
| Net (loss) income attributable to common shareholders | \$ (0.22) | \$ 0.98 | \$ (0.34) | \$ 0.85 |
| Diluted weighted average common shares outstanding | 38,210 | 38,859 | 38,205 | 38,819 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(In thousands)

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|----------------------------------|-----------|--------------------------------|-----------|
| | 2011 | 2012 | 2011 | 2012 |
| CONSOLIDATED NET (LOSS) INCOME | \$ (4,622) | \$ 40,208 | \$ (5,315) | \$ 37,335 |
| OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES: | | | | |
| Change in value of derivative instrument and related income tax effects | | | (489) | |
| Cumulative translation adjustment | 464 | (540) | 898 | (311) |
| COMPREHENSIVE (LOSS) INCOME | (4,158) | 39,668 | (4,906) | 37,024 |
| LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 1,468 | 1,135 | 2,789 | 2,420 |
| COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$ (5,626) | \$ 38,533 | \$ (7,695) | \$ 34,604 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

| | February 29, 2012 | August 31, 2012 (Unaudited) |
|--|----------------------|-----------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 5,619 | \$ 9,532 |
| Accounts receivable, net | 32,880 | 36,218 |
| Prepaid expenses | 12,361 | 12,026 |
| Other current assets | 2,252 | 1,805 |
| Current assets - held-for-sale | 579 | 746 |
| Current assets - discontinued operations | 991 | 754 |
| Total current assets | 54,682 | 61,081 |
| PROPERTY AND EQUIPMENT, NET | 38,438 | 36,408 |
| INTANGIBLE ASSETS (Note 3): | | |
| Indefinite-lived intangibles | 160,676 | 149,705 |
| Goodwill | 14,791 | 14,791 |
| Other intangibles, net | 1,998 | 1,881 |
| Total intangible assets | 177,465 | 166,377 |
| OTHER ASSETS, NET | 6,395 | 12,834 |
| NONCURRENT ASSETS - HELD FOR SALE | 10,870 | 10,839 |
| NONCURRENT ASSETS - DISCONTINUED OPERATIONS | 52,919 | |
| Total assets | \$ 340,769 | \$ 287,539 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(In thousands, except share data)

| | February 29, 2012 | August 31, 2012 (Unaudited) |
|---|----------------------|-----------------------------------|
| LIABILITIES AND DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 11,344 | \$ 8,258 |
| Current maturities of long-term debt (Note 4) | 7,978 | 4,416 |
| Accrued salaries and commissions | 8,136 | 10,365 |
| Accrued interest | 3,038 | 1,028 |
| Deferred revenue | 13,125 | 12,141 |
| Other current liabilities | 6,206 | 4,066 |
| Current liabilities - held-for-sale | 3,544 | 3,401 |
| Current liabilities - discontinued operations | 551 | 493 |
| Total current liabilities | 53,922 | 44,168 |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES (NOTE 4) | 229,725 | 163,531 |
| OTHER NONCURRENT LIABILITIES | 10,988 | 10,171 |
| DEFERRED INCOME TAXES | 52,648 | 40,732 |
| Total liabilities | 347,283 | 258,602 |
| COMMITMENTS AND CONTINGENCIES | | |
| SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK, \$0.01 PAR VALUE; \$50.00 LIQUIDATION PREFERENCE; AUTHORIZED 2,875,000 SHARES; ISSUED AND OUTSTANDING 2,422,320 SHARES AT FEBRUARY 29, 2012 AND 2,822,320 AT AUGUST 31, 2012. EMMIS HAS OBTAINED RIGHTS IN 1,884,679 OF THE SHARES OUTSTANDING AS OF AUGUST 31, 2012 (REDEMPTION AMOUNT, INCLUDING UNDECLARED DIVIDENDS IN ARREARS, OF \$57,351 AND \$59,157, RESPECTIVELY). (Note 2) | | |
| | 46,882 | 46,882 |
| SHAREHOLDERS' DEFICIT: | | |
| Class A common stock, \$.01 par value; authorized 170,000,000 shares; issued and outstanding 34,007,279 shares at February 29, 2012 and 34,213,529 shares at August 31, 2012 | 340 | 342 |
| Class B common stock, \$.01 par value; authorized 30,000,000 shares; issued and outstanding 4,722,684 shares at February 29, 2012 and August 31, 2012, respectively | 47 | 47 |
| Additional paid-in capital | 529,793 | 530,376 |
| Accumulated deficit | (632,608) | (597,752) |
| Accumulated other comprehensive income | 1,190 | 938 |
| Total shareholders' deficit | (101,238) | (66,049) |
| NONCONTROLLING INTERESTS | 47,842 | 48,104 |
| Total deficit | (53,396) | (17,945) |
| Total liabilities and deficit | \$ 340,769 | \$ 287,539 |

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The accompanying notes are an integral part of these unaudited condensed consolidated statements.

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Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT**

(Unaudited)

(In thousands, except share data)

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Noncontrolling Interests | Total Deficit |
|---|-------------------------|--------|-------------------------|--------|----------------------------------|------------------------|---|-----------------------------|------------------|
| | Shares | Amount | Shares | Amount | | | | | |
| BALANCE, FEBRUARY 29, 2012 | 34,007,279 | \$ 340 | 4,722,684 | \$ 47 | \$ 529,793 | \$ (632,608) | \$ 1,190 | \$ 47,842 | \$ (53,396) |
| Net income | | | | | | 34,856 | | 2,479 | 37,335 |
| Issuance of Common Stock to employees and officers | | | | | 449 | | | | 449 |
| Exercise of stock options | 206,250 | 2 | | | 134 | | | | 136 |
| Payments of dividends and distributions to noncontrolling interests | | | | | | | | (2,158) | (2,158) |
| Cumulative translation adjustment | | | | | | | (252) | (59) | (311) |
| BALANCE, AUGUST 31, 2012 | 34,213,529 | \$ 342 | 4,722,684 | \$ 47 | \$ 530,376 | \$ (597,752) | \$ 938 | \$ 48,104 | \$ (17,945) |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Dollars in thousands)

| | Six Months Ended August 31, | |
|--|-----------------------------|-----------|
| | 2011 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Consolidated net (loss) income | \$ (5,315) | \$ 37,335 |
| Adjustments to reconcile consolidated net (loss) income to net cash used in operating activities - | | |
| Discontinued operations | (342) | (39,958) |
| Impairment loss | | 11,708 |
| Depreciation and amortization | 4,329 | 3,612 |
| Noncash accretion of debt instruments to interest expense | 1,262 | 8,369 |
| Loss on debt extinguishment | 1,478 | 1,085 |
| Provision for bad debts | 217 | 283 |
| Benefit from deferred income taxes | (2,138) | (4,404) |
| Noncash compensation | 513 | 956 |
| Loss (gain) on sale of assets | 792 | (10,006) |
| Changes in assets and liabilities - | | |
| Accounts receivable | (1,989) | (4,347) |
| Prepaid expenses and other current assets | (140) | 520 |
| Other assets | (108) | (1,395) |
| Accounts payable and accrued liabilities | 933 | (2,870) |
| Deferred revenue | 931 | (984) |
| Income taxes | (74) | (602) |
| Other liabilities | (1,217) | (6,636) |
| Net cash (used in) provided by operating activities - discontinued operations | (270) | 153 |
| Net cash used in operating activities | (1,138) | (7,181) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (2,355) | (980) |
| Proceeds from the sale of assets | | 10,006 |
| Cash paid for investments | | (3,989) |
| Proceeds from the sale of equity investments | 1,280 | |
| Other | 160 | 42 |
| Net cash provided by investing activities - discontinued operations | 5,746 | 85,487 |
| Net cash provided by investing activities | 4,831 | 90,566 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(Unaudited)

(Dollars in thousands)

| | Six Months Ended August 31, | |
|---|-----------------------------|--------------|
| | 2011 | 2012 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term debt | (10,719) | (165,951) |
| Proceeds from long-term debt | 13,000 | 92,198 |
| Debt-related costs | (553) | (3,495) |
| Payments of dividends and distributions to noncontrolling interests | (2,263) | (2,158) |
| Proceeds from the exercise of stock options | | 134 |
| Settlement of tax withholding obligations on stock issued to employees | (74) | |
| Net cash used in financing activities | (609) | (79,272) |
| Effect of exchange rates on cash and cash equivalents | 426 | (200) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 3,510 | 3,913 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 6,068 | 5,619 |
| End of period | \$ 9,578 | \$ 9,532 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid for - | | |
| Interest | \$ 11,977 | \$ 15,377 |
| Income taxes, net of refunds | 923 | 731 |
| Noncash financing transactions- | | |
| Value of stock issued to employees under stock compensation program and to satisfy accrued incentives | 470 | 954 |

The accompanying notes are an integral part of these unaudited condensed consolidated statements.

Table of Contents**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(DOLLARS IN THOUSANDS UNLESS INDICATED OTHERWISE, EXCEPT SHARE DATA)**August 31, 2012

(Unaudited)

Note 1. Summary of Significant Accounting Policies*Preparation of Interim Financial Statements*

Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), the condensed consolidated interim financial statements included herein have been prepared, without audit, by Emmis Communications Corporation (ECC) and its subsidiaries (collectively, our, us, we, Emmis or the Company). As permitted under the applicable rules and regulations of the SEC, certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, Emmis believes that the disclosures are adequate to make the information presented not misleading. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Emmis filed on Form 10-K for the year ended February 29, 2012. The Company's results are subject to seasonal fluctuations. Therefore, results shown on an interim basis are not necessarily indicative of results for a full year.

In the opinion of Emmis, the accompanying condensed consolidated interim financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of Emmis at August 31, 2012, the results of its operations for the three-month and six-month periods ended August 31, 2011 and 2012, and cash flows for the six-month periods ended August 31, 2011 and 2012.

Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities at August 31, 2011 and 2012 consisted of stock options, restricted stock awards and the 6.25% Series A cumulative convertible preferred stock (the Preferred Stock). Each share of our outstanding Preferred Stock in which the Company has not obtained rights may, at the election of the preferred holder, convert into 2.44 shares of common stock. Conversion of these shares of Preferred Stock into common stock would be antidilutive for the three-month and six-month periods ended August 31, 2011 and 2012. Shares excluded from the calculation as the effect of their conversion into shares of our common stock would be antidilutive were as follows:

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|-------------------------------|-------|-----------------------------|-------|
| | 2011 | 2012 | 2011 | 2012 |
| | (shares in 000 s) | | | |
| 6.25% Series A cumulative convertible preferred stock | 6,854 | 2,288 | 6,854 | 2,288 |
| Stock options and restricted stock awards | 7,565 | 7,274 | 7,522 | 6,898 |
| Antidilutive common share equivalents | 14,419 | 9,562 | 14,376 | 9,186 |

Table of Contents*Discontinued Operation KXOS-FM*

On August 23, 2012, Emmis completed the sale of KXOS-FM in Los Angeles for \$85.5 million in cash. In connection with the sale, Emmis recorded a gain on sale of assets of approximately \$32.8 million, which is included in gain from discontinued operations in the accompanying condensed consolidated statements of operations. KXOS-FM had previously been operating pursuant to a local programming and marketing agreement, which is discussed in more detail below.

In accordance with the provisions of Accounting Standards Codification (ASC) 205-20-45, the Company allocated interest expense associated with the portion of Credit Agreement debt required to be repaid as a result of the sale of KXOS-FM to its operations for all periods presented.

The operations of KXOS-FM had historically been included in the radio segment. The following table summarizes certain operating results of KXOS-FM for all periods presented:

| | Three months ended August 31, | | Six months ended August 31, | |
|---|-------------------------------|----------|-----------------------------|----------|
| | 2011 | 2012 | 2011 | 2012 |
| Net revenues | \$ 1,750 | \$ 1,581 | \$ 3,500 | \$ 3,331 |
| Station operating expenses, excluding depreciation and amortization expense | 25 | 7 | 89 | 27 |
| Depreciation and amortization expense | 116 | 65 | 239 | 169 |
| Gain on sale of station | | 32,757 | | 32,757 |
| Interest expense | 1,746 | 1,591 | 3,226 | 3,358 |
| Provision (benefit) for income taxes | 2,139 | (8,865) | 2,170 | (7,769) |

Discontinued Operation Country Sampler, Smart Retailer and related publications

On August 10, 2012, Emmis entered into a non-binding letter of intent to sell the assets of *Country Sampler* magazine, *Smart Retailer* magazine, and related publications (altogether the *Sampler Publications*). Emmis and subsidiaries of DRG Holdings, LLC closed on the sale of the *Sampler Publications* on October 1, 2012. See Note 13 for more discussion.

In accordance with the provisions of Accounting Standards Codification (ASC) 205-20-45, the Company allocated interest expense associated with the estimate of Credit Agreement debt required to be repaid as a result of the sale of the *Sampler Publications* to its operations for all periods presented.

The operations of the *Sampler Publications* had historically been included in the publishing segment. The following table summarizes certain operating results of the *Sampler Publications* for all periods presented:

| | Three months ended August 31, | | Six months ended August 31, | |
|---|-------------------------------|----------|-----------------------------|----------|
| | 2011 | 2012 | 2011 | 2012 |
| Net revenues | \$ 1,527 | \$ 1,620 | \$ 3,797 | \$ 3,939 |
| Station operating expenses, excluding depreciation and amortization expense | 1,468 | 1,612 | 3,333 | 3,604 |
| Depreciation and amortization | 20 | 22 | 38 | 44 |
| Loss on sale of assets | 23 | | 23 | |
| Interest expense | 187 | 188 | 345 | 377 |
| Provision for income taxes | 197 | 130 | 283 | 259 |

Table of Contents*Discontinued Operation Slager*

On October 28, 2009, the Hungarian National Radio and Television Board (ORTT) announced that it was awarding to another bidder the national radio license then held by our majority-owned subsidiary, Slager. Slager ceased broadcasting effective November 19, 2009. The Company believes that the awarding of the license to another bidder was unlawful. In October 2011, Emmis filed for arbitration with the International Centre for Settlement of Investment Disputes seeking resolution of its claim.

Slager had historically been included in the radio segment. The following table summarizes certain operating results for Slager for all periods presented:

| | Three months ended August 31, | | Six months ended August 31, | |
|---|-------------------------------|------|-----------------------------|------|
| | 2011 | 2012 | 2011 | 2012 |
| Net revenues | \$ | \$ | \$ 7 | \$ |
| Station operating expenses, excluding depreciation and amortization expense | 155 | | 245 | |
| Other income | 53 | | 148 | |
| Loss before income taxes | 102 | | 90 | |
| Loss attributable to minority interests | 28 | | 49 | |

Discontinued Operation Flint Peak Tower Site

On April 6, 2011, Emmis sold land, towers and other equipment at its Glendale, CA tower site (the Flint Peak Tower Site) to Richland Towers Management Flint, Inc. for \$6.0 million in cash. In connection with the sale, Emmis recorded a gain on sale of assets of approximately \$4.9 million, which is included in gain from discontinued operations in the accompanying condensed consolidated statements of operations. Net proceeds from the sale were used to repay amounts outstanding under the credit facility.

The operations of the Flint Peak Tower Site had historically been included in the radio segment. The following table summarizes certain operating results for the Flint Peak Tower Site for all periods presented:

| | Three months ended August 31, | | Six months ended August 31, | |
|---|-------------------------------|------|-----------------------------|------|
| | 2011 | 2012 | 2011 | 2012 |
| Net revenues | \$ | \$ | \$ 59 | \$ |
| Station operating expenses, excluding depreciation and amortization expense | 2 | | 51 | |
| Depreciation and amortization | | | 7 | |
| Gain on sale of assets | | | 4,882 | |
| Income before income taxes | (2) | | 4,883 | |
| Provision for income taxes | | | 2,003 | |

Table of Contents*Summary of Assets and Liabilities of Discontinued Operations:*

| | As of February 29, 2012 | | As of August 31, 2012 |
|---------------------------------------|-------------------------|---------------------------------|-----------------------|
| | KXOS-FM | Slager, Flint Peak and Other | Slager |
| Current assets: | | | |
| Cash and cash equivalents | \$ | \$ 914 | \$ 695 |
| Other | | 77 | 59 |
| Total current assets | | 991 | 754 |
| Noncurrent assets: | | | |
| Property and equipment, net | 578 | | |
| Indefinite-lived intangibles | 52,333 | | |
| Other noncurrent assets | | 8 | |
| Total noncurrent assets | 52,911 | 8 | |
| Total assets | \$ 52,911 | \$ 999 | \$ 754 |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ | \$ 551 | \$ 493 |
| Total current liabilities | \$ | \$ 551 | \$ 493 |

Summary of Sampler Publications Assets and Liabilities Held-For-Sale:

| | As of February 29, 2012 | As of August 31, 2012 |
|--|-------------------------|-----------------------|
| Current assets: | | |
| Prepaid expenses | \$ 579 | 746 |
| Total current assets held-for-sale | 579 | 746 |
| Noncurrent assets: | | |
| Property and equipment, net | 1,486 | 1,455 |
| Goodwill | 9,384 | 9,384 |
| Total noncurrent assets held-for-sale | 10,870 | 10,839 |
| Total assets | \$ 11,449 | \$ 11,585 |
| Current liabilities: | | |
| Deferred income | \$ 3,544 | \$ 3,401 |
| Total current liabilities held-for-sale | \$ 3,544 | \$ 3,401 |

Local Programming and Marketing Agreement Fees

The Company from time to time enters into local programming and marketing agreements (LMA's) in connection with acquisitions or dispositions of radio stations, pending regulatory approval of transfer of the FCC licenses. In such cases where the Company enters into an LMA

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in connection with a disposition, the Company generally receives specified periodic payments in exchange for the counterparty receiving the right to program and sell advertising for a specified portion of the station's inventory of broadcast time. Nevertheless, as the holder of the FCC license, the Company retains control and responsibility for the operation of the station, including responsibility over all programming broadcast on the station.

On April 26, 2012, Emmis entered into an LMA with a subsidiary of Disney Enterprises, Inc. for 98.7FM in New York (formerly WRKS-FM and now WEPN-FM, hereinafter referred to as 98.7FM). The LMA for this station started on April 30, 2012 and will continue until August 31, 2024 (see Note 8 for more discussion of this LMA and related transactions).

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On June 20, 2011, Emmis entered into an LMA with LMA Merlin Media LLC for WRXP-FM in New York, WKQX-FM in Chicago and WLUP-FM in Chicago (the Merlin Media LMA). The LMA for these stations started on July 15, 2011 and terminated upon their sale on September 1, 2011.

Grupo Radio Centro, S.A.B. de C.V (GRC), a Mexican broadcasting company, provided programming and sold advertising for KXOS-FM in Los Angeles pursuant to an LMA from April 2009 until GRC consummated its purchase of KXOS-FM on August 23, 2012. See Note 11 for more discussion of the sale of KXOS-FM.

LMA fees, recorded as net revenues in the accompanying condensed consolidated statements of operations, for the three-month and six-month periods ended August 31, 2011 and 2012 were as follows:

| | Three months ended August 31, | | Six months ended August 31, | |
|---------------------------------|-------------------------------|----------|-----------------------------|----------|
| | 2011 | 2012 | 2011 | 2012 |
| <i>Continuing operations:</i> | | | | |
| 98.7FM, New York | \$ | \$ 2,582 | \$ | \$ 3,443 |
| Merlin Media LMA | 310 | | 310 | |
| Total | \$ 310 | \$ 2,582 | \$ 310 | \$ 3,443 |
| <i>Discontinued operations:</i> | | | | |
| KXOS-FM, Los Angeles | \$ 1,750 | \$ 1,581 | \$ 3,500 | \$ 3,331 |
| Total | \$ 1,750 | \$ 1,581 | \$ 3,500 | \$ 3,331 |

Impairment Losses

Impairment losses for the three-month and six-month periods ended August 31, 2011 and 2012 were as follows:

| | Three months ended August 31, | | Six months ended August 31, | |
|------------------------------------|-------------------------------|--------|-----------------------------|-----------|
| | 2011 | 2012 | 2011 | 2012 |
| Indefinite-lived intangible assets | \$ | \$ | \$ | \$ 10,971 |
| Long-lived tangible assets | | 737 | | 737 |
| Total impairment loss | \$ | \$ 737 | \$ | \$ 11,708 |

The Company periodically considers whether indicators of impairment of long-lived tangible assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values.

During the three months ended August 31, 2012, the Company determined that a deceleration of market penetration and revenue growth of a non-core business in its radio segment indicated that this business' long-lived tangible assets may be impaired. As the carrying value of these assets exceeded the undiscounted cash flows attributable to the business, the Company measured the amount of the impairment loss by comparing the assets' fair value to their carrying value. The Company determined that the carrying value of the long-lived tangible assets exceeded their fair value, as determined by a discounted cash flow analysis, by \$0.7 million, which is included in impairment loss in the accompanying condensed consolidated statements of operations.

The impairment loss related to indefinite-lived intangibles related to the LMA of 98.7FM. The impairment loss on this transaction is discussed in Note 3 below.

Table of ContentsNote 2. Share Based Payments

The amounts recorded as share based compensation expense consist of stock option and restricted stock grants, common stock issued to employees and directors in lieu of cash payments, and Preferred Stock contributed to the 2012 Retention Plan.

Stock Option Awards

The Company has granted options to purchase its common stock to employees and directors of the Company under various stock option plans at no less than the fair market value of the underlying stock on the date of grant. These options are granted for a term not exceeding 10 years and are forfeited, except in certain circumstances, in the event the employee or director terminates his or her employment or relationship with the Company. Generally, these options either vest annually over three years (one-third each year for three years), or cliff vest at the end of three years. The Company issues new shares upon the exercise of stock options.

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model and expensed on a straight-line basis over the vesting period. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The Company includes estimated forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of awards. Prior to March 1, 2012, the Company used the simplified method to estimate the expected term for all options granted. Although the Company had granted options for many years, the historical exercise activity of our options was impacted by the way the Company processed the equitable adjustment of our November 2006 special dividend. Consequently, the Company believes that reliable data regarding exercise behavior only exists for the period subsequent to November 2006, which it determined was insufficient experience upon which to estimate the expected term through fiscal 2012. However, beginning in fiscal 2013, the Company determined that sufficient reliable data regarding its employees' exercise behavior was available and it ceased using the simplified method. This change did not materially impact our results of operations. The risk-free interest rate for periods within the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used to calculate the fair value of the Company's options on the date of grant during the six months ended August 31, 2011 and 2012:

| | Six Months Ended August 31, | |
|--------------------------|------------------------------------|-----------------|
| | 2011 | 2012 |
| Risk-Free Interest Rate: | 1.8% - 2.5% | 0.7% |
| Expected Dividend Yield: | 0% | 0% |
| Expected Life (Years): | 6.0 | 4.2 |
| Expected Volatility: | 110.2% - 110.9% | 129.5% - 131.4% |

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The following table presents a summary of the Company's stock options outstanding at August 31, 2012, and stock option activity during the six months ended August 31, 2012 (Price reflects the weighted average exercise price per share):

| | Options | Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|-----------|---------|--|---------------------------------|
| Outstanding, beginning of period | 8,426,564 | \$ 7.26 | | |
| Granted | 2,348,000 | 0.86 | | |
| Exercised (1) | 211,250 | 0.64 | | |
| Forfeited | 17,500 | 0.70 | | |
| Expired | 626,596 | 18.14 | | |
| Outstanding, end of period | 9,919,218 | 5.21 | 6.0 | \$ 10,057 |
| Exercisable, end of period | 6,680,322 | 7.31 | 4.4 | \$ 4,824 |

(1) The Company did not record an income tax benefit related to option exercises in the six months ended August 31, 2012. No options were exercised during the six months ended August 31, 2011.

The weighted average grant date fair value of options granted during the six months ended August 31, 2011 and 2012, was \$0.93 and \$0.71, respectively.

A summary of the Company's nonvested options at August 31, 2012, and changes during the six months ended August 31, 2012, is presented below:

| | Options | Weighted Average Grant Date Fair Value |
|--------------------------------|-----------|--|
| Nonvested, beginning of period | 3,193,171 | \$ 0.58 |
| Granted | 2,348,000 | 0.71 |
| Vested | 2,284,775 | 0.51 |
| Forfeited | 17,500 | 0.57 |
| Nonvested, end of period | 3,238,896 | 0.73 |

There were 1.5 million shares available for future grants under the Company's various equity plans at August 31, 2012. The vesting dates of outstanding options at August 31, 2012 range from December 2012 to March 2017, and expiration dates range from March 2013 to May 2022.

Restricted Stock Awards

The Company grants restricted stock awards to directors annually, though it has granted restricted stock to employees in prior years. These awards to directors are granted on the date of our annual meeting of shareholders and vest on the earlier of (i) the completion of the director's three-year term or (ii) the third anniversary of the date of grant. Restricted stock award grants prior to fiscal 2011 were granted out of the Company's 2004 Equity Compensation Plan and restricted stock award grants since March 1, 2010 have been granted out of the Company's 2010 Equity Compensation Plan. The Company may also award, out of the Company's 2010 Equity Compensation Plan, stock to settle certain bonuses and other compensation that otherwise would be paid in cash. Any restrictions on these shares are immediately lapsed on the grant date.

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The following table presents a summary of the Company's restricted stock grants outstanding at August 31, 2012, and restricted stock activity during the six months ended August 31, 2012 (Price reflects the weighted average share price at the date of grant):

| | Awards | Price |
|---|--------|---------|
| Grants outstanding, beginning of period | 24,145 | \$ 0.90 |
| Granted | | |
| Vested (restriction lapsed) | 4,390 | 0.66 |
| Forfeited | | |
| Grants outstanding, end of period | 19,755 | 0.95 |

The total grant date fair value of shares vested during the six months ended August 31, 2011 and 2012 was \$0.6 million and less than \$0.1 million, respectively.

Preferred Stock and the 2012 Retention Plan

During the year ended February 29, 2012, the Company purchased rights in 1,484,679 shares of its Preferred Stock. The purchase price for the rights in the Preferred Stock was paid in cash, but these shares are subject to total return swap arrangements. We have entered into confirmations for total return swaps and voting agreements with several preferred holders. Pursuant to these agreements and arrangements, we have the ability to direct the vote of 1,484,679 shares of Preferred Stock, or approximately 61% of the Preferred Stock outstanding as of February 29, 2012.

On April 2, 2012, the shareholders of the Company approved the 2012 Retention Plan and Trust Agreement (the Trust or the 2012 Retention Plan) at a special meeting of shareholders. The Company contributed 400,000 shares of its Preferred Stock to the Trust in connection with the approval of the 2012 Retention Plan. Awards granted under the 2012 Retention Plan entitle the participants to receive a distribution two years from the date of shareholder approval of the plan, provided the participant is still an employee and was an employee upon inception of the plan. Distributions may be in the form of Class A common stock if the Company elects to convert the Preferred Stock to common stock at the then-current conversion ratio prior to distribution. The initial Trustee of the plan is Jeffrey H. Smulyan, our Chairman of the Board, President and Chief Executive Officer.

As of the Trust's inception and August 31, 2012, no preferred shares have been allocated to individual employees, nor is any individual entitled to any minimum number of shares. As a result, the service inception date for these awards precedes the grant date, and the Company is accounting for the 2012 Retention Plan as a liability plan, using variable accounting. Prior to establishment of a grant date, the Company will estimate the fair value of the shares at each reporting period, and will recognize the compensation expense over a two-year period that began on April 2, 2012. Upon the second anniversary of the Trust's inception, the Trust's governance will allocate the shares to individual employees, at which point fully vested shares will be distributed to employees. The Trust is consolidated by the Company and both the assets and deferred compensation obligation of the Trust are accounted for within preferred stock in the accompanying condensed consolidated balance sheets. The Company recognized approximately \$0.3 million and \$0.4 million of compensation expense related to the 2012 Retention Plan during the three months and six months ended August 31, 2012, respectively.

In connection with the approval of the 2012 Retention Plan, the Trustee and the Trust entered into a Voting and Transfer Restriction Agreement with Emmis, pursuant to which Emmis has the right to direct the vote of the 400,000 shares of Preferred Stock contributed to the Trust under the 2012 Retention Plan. As such, the Company effectively controls approximately 66.8% of the outstanding Preferred Stock. The Company also has the right to exchange the 400,000 shares of Preferred Stock into shares of Class A common stock at the same ratio as the conversion formula in the Preferred Stock (currently 2.44 shares of Class A common stock for each share of Preferred Stock).

Certain terms of the Preferred Stock were modified subsequent to August 31, 2012. See Note 13 for more discussion.

Table of Contents**Recognized Non-Cash Compensation Expense**

The following table summarizes stock-based compensation expense and related tax benefits recognized by the Company in the three months and six months ended August 31, 2011 and 2012:

| | Three months ended August 31, | | Six months ended August 31, | |
|---|-------------------------------|---------------|-----------------------------|---------------|
| | 2011 | 2012 | 2011 | 2012 |
| Station operating expenses | \$ 47 | \$ 297 | \$ 126 | \$ 449 |
| Corporate expenses | 185 | 269 | 387 | 507 |
| Stock-based compensation expense included in operating expenses | 232 | 566 | 513 | 956 |
| Tax benefit | | | | |
| Recognized stock-based compensation expense, net of tax | \$ 232 | \$ 566 | \$ 513 | \$ 956 |

As of August 31, 2012, there was \$3.7 million of unrecognized compensation cost, net of estimated forfeitures, related to nonvested share-based compensation arrangements. The cost is expected to be recognized over a weighted average period of approximately 1.8 years.

Note 3. **Intangible Assets and Goodwill***Valuation of Indefinite-lived Broadcasting Licenses*

In accordance with ASC Topic 350, *Intangibles - Goodwill and Other*, the Company's Federal Communications Commission (FCC) licenses are considered indefinite-lived intangibles. These assets, which the Company determined were its only indefinite-lived intangibles, are not subject to amortization, but are tested for impairment at least annually as discussed below.

The carrying amounts of the Company's FCC licenses were \$213.0 million (\$52.3 million of which is classified as noncurrent assets discontinued operations) as of February 29, 2012 and \$149.7 million as of August 31, 2012. The decline in FCC licenses is attributable to the impairment charge recorded for 98.7FM and the sale of KXOS-FM. Pursuant to Emmis' accounting policy, stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under an LMA by another broadcaster. As of February 29, 2012, our two stations in New York were considered a single unit of accounting. In connection with the execution of the LMA discussed above and in Note 8, the Company separated the two New York stations into separate units of accounting. The Company performed an interim impairment test of the 98.7FM license as of May 1, 2012 which resulted in an impairment charge of \$11.0 million.

The Company generally performs its annual impairment test of indefinite-lived intangibles as of December 1 of each year. When indicators of impairment are present, as was the case with 98.7FM as noted above, the Company will perform an interim impairment test. These impairment tests may result in impairment charges in future periods.

Fair value of our FCC licenses is estimated to be the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. To determine the fair value of our FCC licenses, the Company uses an income valuation method when it performs its impairment tests. Under this method, the Company projects cash flows that would be generated by each of its units of accounting assuming the unit of accounting was commencing operations in its respective market at the beginning of the valuation period. This cash flow stream is discounted to arrive at a value for the FCC license. The Company assumes the competitive situation that exists in each market remains unchanged, with the exception that its unit of accounting commenced operations at the beginning of the valuation period. In doing so, the Company extracts the value of going concern and any

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other assets acquired, and strictly values the FCC license. Major assumptions involved in this analysis include market revenue, market revenue growth rates, unit of accounting audience share, unit of accounting revenue share and discount rate. Each of these assumptions may change in the future based upon changes in general economic conditions, audience behavior, consummated transactions, and numerous other variables that may be beyond our control. When evaluating our radio broadcasting licenses for impairment, the testing is performed at the unit of accounting level as determined by ASC Topic 350-30-35. In our case, radio stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under an LMA.

Valuation of Goodwill

ASC Topic 350-20-35 requires the Company to test goodwill for impairment at least annually using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of impairment. The Company conducts the two-step impairment test on December 1 of each fiscal year, unless indications of impairment exist during an interim period. During the quarter ended August 31, 2012, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. When assessing its goodwill for impairment, the Company uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units (radio stations grouped by market and magazines on an individual basis). Management determines enterprise value for each of its reporting units by multiplying the two-year average station operating income generated by each reporting unit (current year based on actual results and the next year based on budgeted results) by an estimated market multiple. The Company uses a blended station operating income trading multiple of publicly traded radio operators as a benchmark for the multiple it applies to its radio reporting units. There are no publicly traded publishing companies that are focused predominantly on city and regional magazines as is our publishing segment. Therefore, the market multiple used as a benchmark for our publishing reporting units has been based on recently completed transactions within the city and regional magazine industry or analyst reports that include valuations of magazine divisions within publicly traded media conglomerates. Management believes this methodology for valuing radio and publishing properties is a common approach and believes that the multiples used in the valuation are reasonable given our peer comparisons and recent market transactions. To corroborate the step-one reporting unit fair values determined using the market approach described above, management also uses an income approach, which is a discounted cash flow method to determine the fair value of the reporting unit.

This enterprise valuation is compared to the carrying value of the reporting unit for the first step of the goodwill impairment test. If the reporting unit exhibits impairment, the Company proceeds to the second step of the goodwill impairment test. For its step-two testing, the enterprise value is allocated among the tangible assets, indefinite-lived intangible assets (FCC licenses valued using a direct-method valuation approach) and unrecognized intangible assets, such as customer lists, with the residual amount representing the implied fair value of the goodwill. To the extent the carrying amount of the goodwill exceeds the implied fair value of the goodwill, the difference is recorded as an impairment charge in the statement of operations.

As of February 29, 2012 and August 31, 2012, the carrying amount of the Company's goodwill, including \$9.4 million of Country Sampler goodwill classified as held-for-sale in the accompanying condensed consolidated balance sheets, was \$24.2 million. As of February 29, 2012 and August 31, 2012 approximately \$6.3 million and \$17.9 million of our goodwill was attributable to our radio and publishing divisions, respectively.

Definite-lived intangibles

The Company's definite-lived intangible assets consist primarily of foreign broadcasting licenses, and trademarks, all of which are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company's future cash flows. The following table presents the weighted-average useful life, gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at February 29, 2012 and August 31, 2012:

| | Weighted Average Remaining Useful Life (in years) | February 29, 2012 | | | August 31, 2012 | | |
|-------------------------------|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Foreign Broadcasting Licenses | 8.7 | \$ 8,716 | \$ 6,976 | \$ 1,740 | \$ 8,716 | \$ 7,071 | \$ 1,645 |
| Trademarks | 12.7 | 749 | 502 | 247 | 749 | 513 | 236 |
| Favorable Office Leases | n/a | 688 | 677 | 11 | | | |
| TOTAL | | \$ 10,153 | \$ 8,155 | \$ 1,998 | \$ 9,465 | \$ 7,584 | \$ 1,881 |

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Total amortization expense from definite-lived intangibles for the three month periods ended August 31, 2011 and 2012 was \$0.3 million and less than \$0.1 million, respectively. Total amortization expense from definite-lived intangibles for the six month periods ended August 31, 2011 and 2012 was \$0.6 million and \$0.1 million, respectively. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles:

| YEAR ENDED FEBRUARY 28 (29), | |
|------------------------------|--------|
| 2013 | \$ 223 |
| 2014 | 209 |
| 2015 | 207 |
| 2016 | 207 |
| 2017 | 207 |

Note 4. Long-term Debt

Long-term debt was comprised of the following at February 29, 2012 and August 31, 2012:

| | As of February 29, 2012 | As of August 31, 2012 |
|--|----------------------------|--------------------------|
| <i>Credit Agreement debt</i> | | |
| Revolver | \$ 6,000 | \$ |
| Term Loan B | 87,877 | 21,814 |
| Extended Term Loan B | 109,966 | 27,298 |
| Total Credit Agreement debt | 203,843 | 49,112 |
| Senior unsecured notes | 33,860 | 37,857 |
| 98.7FM nonrecourse debt | | 80,978 |
| Less current maturities: | | |
| Credit Agreement debt | (7,978) | (491) |
| 98.7FM nonrecourse debt | | (3,925) |
| Total long-term debt, net of current maturities | \$ 229,725 | \$ 163,531 |

Credit Agreement Debt

At August 31, 2012, we had \$49.1 million of outstanding term loans, revolver availability was \$10.0 million, and no letters of credit were outstanding. During the six months ended August 31, 2012, the Company repaid \$164.7 million of outstanding term loans and all amounts borrowed under the revolver from the proceeds received from the 98.7FM transactions as discussed in Note 8 and the sale of KXOS-FM as discussed in Note 11. Our revolver matures on November 2, 2012.

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The Credit Agreement was amended four times during the six months ended August 31, 2012. See Note 9 for more discussion of the amendments.

Senior Unsecured Notes

Interest on the senior unsecured notes is paid in kind and compounds quarterly at a rate of 22.95% per annum, except that during the continuance of any event of default the rate will be 24.95% per annum payable on demand in cash. At any time after the discharge of certain senior obligations of Emmis and its subsidiaries described in the Note Purchase Agreement, Emmis may, upon prior written notice, redeem the senior unsecured notes in whole or in part at a redemption price (including with certain make-whole amounts for redemption occurring prior to May 10, 2013) as described in the Note Purchase Agreement. Any partial redemption of the senior unsecured notes shall be in denominations of at least \$10.0 million and in multiples of \$1.0 million in excess of such minimum denomination. The senior unsecured notes mature on February 1, 2015, at which time the principal balance and all accreted interest is due entirely in cash.

The senior unsecured notes were amended three times during the six months ended August 31, 2012. See Note 9 for more discussion of the amendments.

98.7FM Nonrecourse Debt

On May 30, 2012, the Company, through wholly-owned, newly-created subsidiaries, issued \$82.2 million of nonrecourse notes. Teachers Insurance and Annuity Association of America (TIAA), through a participation agreement with Wells Fargo Bank Northwest, National Association (Wells Fargo), is entitled to receive payments made on the notes. The notes are obligations only of the newly-created subsidiaries, are non-recourse to the rest of the Company's subsidiaries and are secured by the assets of the newly-created subsidiaries, including the payments made to the newly-created subsidiary related to the 98.7FM LMA, which are guaranteed by Disney Enterprises, Inc. The notes bear interest at 4.1%. See Note 8 for more discussion of the 98.7FM nonrecourse debt and LMA.

Based on amounts outstanding at August 31, 2012, mandatory principal payments of long-term debt for the next five years and thereafter are summarized below:

| Year Ended February 28 (29), | Senior | | 98.7FM | | Total |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------|
| | Credit Agreement | Unsecured Notes | Nonrecourse | Debt | |
| | Debt Principal Repayments | Debt Principal Repayments | Debt Principal Repayments | Debt Principal Repayments | |
| 2013 | \$ 246 | \$ | \$ | 1,910 | \$ 2,156 |
| 2014 | 21,976 | | | 4,126 | 26,102 |
| 2015 | 26,890 | 37,857 | | 4,541 | 69,288 |
| 2016 | | | | 4,990 | 4,990 |
| 2017 | | | | 5,453 | 5,453 |
| Thereafter | | | | 59,958 | 59,958 |
| Total | \$ 49,112 | \$ 37,857 | \$ | 80,978 | \$ 167,947 |

Note 5. Liquidity

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, principal and interest payments on its indebtedness and preferred stock dividends. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2013 with cash and cash equivalents on hand and projected cash flows from operations. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2013.

Borrowings under the Credit Agreement depend upon our continued compliance with certain operating

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covenants and financial ratios. Subsequent to the Seventh Amendment to the Credit Agreement, the Company was required to maintain a Total Leverage Ratio, as defined in the Credit Agreement, that did not exceed 5.0:1.0 as of August 31, 2012 and maintain at least \$5 million in Liquidity (as defined in the Credit Agreement). The Credit Agreement also contains certain other non-financial covenants. We were in compliance with all financial and non-financial covenants as of August 31, 2012. As of August 31, 2012, our Liquidity and Total Leverage Ratio (both as defined in the Credit Agreement) were \$13.8 million and 2.9:1.0, respectively

Note 6. Fair Value Measurements

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Recurring Fair Value Measurements

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of February 29, 2012 and August 31, 2012. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

| | As of August 31, 2012 | | | Total |
|--|---|---|--|----------|
| | Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities | Level 2 Significant Other Observable Inputs | Level 3 Significant Unobservable Inputs | |
| Available for sale securities | \$ | \$ | \$ 4,149 | \$ 4,149 |
| Total assets measured at fair value on a recurring basis | \$ | \$ | \$ 4,149 | \$ 4,149 |

| | As of February 29, 2012 | | | Total |
|--|---|---|--|--------|
| | Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities | Level 2 Significant Other Observable Inputs | Level 3 Significant Unobservable Inputs | |
| Available for sale securities | \$ | \$ | \$ 160 | \$ 160 |
| Total assets measured at fair value on a recurring basis | \$ | \$ | \$ 160 | \$ 160 |

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Available for sale securities Emmis available for sale securities are investments in preferred stock of companies that are not traded in active markets. The investments are recorded at fair value, which is generally estimated using significant unobservable market parameters, resulting in Level 3 categorization.

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The following table shows a reconciliation of the beginning and ending balances for fair value measurements using significant unobservable inputs:

| | For the Six Months Ended | | Available For Sale Securities |
|--------------------------------------|--------------------------|-----------------|-------------------------------------|
| | August 31, 2011 | August 31, 2012 | |
| Beginning Balance | \$ 189 | \$ 297 | \$ 160 |
| Purchases | | | 3,989 |
| Realized losses included in earnings | | (297) | |
| Ending Balance | \$ 189 | \$ | \$ 4,149 |

Non-Recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis under circumstances and events that include those described in Note 3, Intangible Assets and Goodwill, and are adjusted to fair value only when the carrying values are more than the fair values. The categorization of the framework used to price the assets is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value (see Note 3 for more discussion).

Fair Value of Other Financial Instruments

The estimated fair value of financial instruments is determined using the best available market information and appropriate valuation methodologies. Considerable judgment is necessary, however, in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange, or the value that ultimately will be realized upon maturity or disposition. The use of different market assumptions may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- *Cash and cash equivalents, accounts receivable and accounts payable, including accrued liabilities:* The carrying amount of these assets and liabilities approximates fair value because of the short maturity of these instruments.
- *Credit Agreement debt:* As of February 29, 2012 and August 31, 2012, the fair value of the Company's Credit Agreement debt was \$198.0 million and \$48.7 million, respectively, while the carrying value was \$203.8 million and \$49.1 million, respectively. The Company's assessment of the fair value of the Credit Agreement debt is based on bid prices for the portion of debt that is actively traded and is considered a level 1 measurement. The Extended Term Loans are not actively traded and are considered a level 3 measurement. The Company believes that the current carrying value of the Extended Term Loans approximates their fair value.
- *6.25% Series A cumulative convertible preferred stock:* As of February 29, 2012 and August 31, 2012, the fair value of the Company's Preferred Stock for which the Company does not have voting rights, based on quoted market prices, was \$20.2 million and \$17.7 million, respectively, while the carrying value was \$46.9 million for both periods. The carrying value of Preferred Stock excludes undeclared dividends in arrears. Exclusive of shares outstanding for which the Company has acquired voting rights, undeclared dividends in arrears were of \$10.5 million and \$12.3 million as of February 29, 2012 and August 31, 2012, respectively. Subsequent to August 31, 2012, the Articles of Incorporation were amended to make the Preferred Stock non-cumulative and all accumulated but undeclared preferred dividends were cancelled. See Note 13 for more discussion of the amendments to the Articles of Incorporation. As quoted market prices are available, this is considered a level 1 measurement.

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- *Senior unsecured notes*: The senior unsecured notes are not actively traded and are considered a level 3 measurement (see Note 4 for more discussion of the senior unsecured notes). The Company believes that the current carrying value of the senior unsecured notes approximates their fair value.

- *98.7FM nonrecourse debt*: The 98.7FM nonrecourse debt is not actively traded and is considered a level 3 measurement (see Note 4 and Note 8 for more discussion of the 98.7FM nonrecourse debt). The Company believes that the current carrying value of the 98.7FM nonrecourse debt approximates its fair value.

Note 7. Segment Information

The Company's operations are aligned into two business segments: (i) Radio and (ii) Publishing. These business segments are consistent with the Company's management of these businesses and its financial reporting structure. Corporate expenses are not allocated to reportable segments. The results of operations of our Hungary radio operations, KXOS-FM, Country Sampler and related magazines, and the operations related to our Flint Peak Tower Site, have been classified as discontinued operations and have been excluded from the segment disclosures below. Country Sampler and related magazines had previously been included in the publishing segment, while all other discontinued operations had previously been included in the radio segment. See Note 1 for more discussion of our discontinued operations.

The Company's segments operate primarily in the United States, but we also operate radio stations located in Slovakia and Bulgaria. The following table summarizes the net revenues and long-lived assets of our international properties included in our condensed consolidated financial statements.

| | Net Revenues | | Net Revenues | | Long-lived Assets | |
|--|------------------------------------|----------|----------------------------------|----------|-------------------------|-----------------------|
| | Three Months Ended August 31, 2011 | 2012 | Six Months Ended August 31, 2011 | 2012 | As of February 29, 2012 | As of August 31, 2012 |
| <i>Continuing Operations:</i> | | | | | | |
| Slovakia | \$ 3,246 | \$ 3,172 | \$ 5,918 | \$ 5,449 | \$ 6,313 | \$ 5,816 |
| Bulgaria | 363 | 324 | 618 | 558 | 578 | 433 |
| <i>Discontinued Operations (see Note 1):</i> | | | | | | |
| Hungary | \$ | \$ | \$ 7 | \$ | \$ 8 | \$ |

The accounting policies as described in the summary of significant accounting policies included in the Company's Annual Report filed on Form 10-K, for the year ended February 29, 2012, and in Note 1 to these condensed consolidated financial statements, are applied consistently across segments.

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| Three Months Ended | | | | |
|---|------------------|-------------------|--------------------|-----------------|
| August 31, 2012 | | | | |
| | Radio | Publishing | Corporate | Consolidated |
| Net revenues | \$ 44,604 | \$ 12,965 | \$ | \$ 57,569 |
| Station operating expenses, excluding depreciation and amortization | 30,257 | 13,790 | | 44,047 |
| Corporate expenses, excluding depreciation and amortization | | | 4,161 | 4,161 |
| Depreciation and amortization | 919 | 82 | 489 | 1,490 |
| Impairment loss | 737 | | | 737 |
| Gain on sale of assets | (3) | (3) | | (6) |
| Operating income (loss) | \$ 12,694 | \$ (904) | \$ (4,650) | \$ 7,140 |
| | | | | |
| Three Months Ended | | | | |
| August 31, 2011 | | | | |
| | Radio | Publishing | Corporate | Consolidated |
| Net revenues | \$ 48,278 | \$ 13,066 | \$ | \$ 61,344 |
| Station operating expenses, excluding depreciation and amortization | 37,754 | 12,902 | | 50,656 |
| Corporate expenses, excluding depreciation and amortization | | | 2,969 | 2,969 |
| Depreciation and amortization | 1,594 | 98 | 282 | 1,974 |
| Loss on sale of fixed assets | 794 | 1 | | 795 |
| Operating income (loss) | \$ 8,136 | \$ 65 | \$ (3,251) | \$ 4,950 |
| | | | | |
| Six Months Ended | | | | |
| August 31, 2012 | | | | |
| | Radio | Publishing | Corporate | Consolidated |
| Net revenues | \$ 83,230 | \$ 27,057 | \$ | \$ 110,287 |
| Station operating expenses, excluding depreciation and amortization | 60,837 | 28,042 | | 88,879 |
| Corporate expenses, excluding depreciation and amortization | | | 9,133 | 9,133 |
| Depreciation and amortization | 1,924 | 168 | 950 | 3,042 |
| Impairment loss | 11,708 | | | 11,708 |
| Gain on sale of assets | (10,003) | (3) | | (10,006) |
| Operating income (loss) | \$ 18,764 | \$ (1,150) | \$ (10,083) | \$ 7,531 |
| | | | | |
| Six Months Ended | | | | |
| August 31, 2011 | | | | |
| | Radio | Publishing | Corporate | Consolidated |
| Net revenues | \$ 91,898 | \$ 26,572 | \$ | \$ 118,470 |
| Station operating expenses, excluding depreciation and amortization | 70,678 | 27,383 | | 98,061 |
| Corporate expenses, excluding depreciation and amortization | | | 10,304 | 10,304 |
| Depreciation and amortization | 3,206 | 192 | 546 | 3,944 |
| Loss on sale of fixed assets | 791 | 1 | | 792 |
| Operating income (loss) | \$ 17,223 | \$ (1,004) | \$ (10,850) | \$ 5,369 |

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| | Radio | As of February 29, 2012 | | Consolidated |
|----------------------------------|------------|-------------------------|-----------|--------------|
| | | Publishing | Corporate | |
| Assets - continuing operations | \$ 224,765 | \$ 25,883 | \$ 24,762 | \$ 275,410 |
| Assets - held-for-sale | | 11,449 | | 11,449 |
| Assets - discontinued operations | 53,910 | | | 53,910 |
| Total assets | \$ 278,675 | \$ 37,332 | \$ 24,762 | \$ 340,769 |

| | Radio | As of August 31, 2012 | | Consolidated |
|----------------------------------|------------|-----------------------|-----------|--------------|
| | | Publishing | Corporate | |
| Assets - continuing operations | \$ 221,760 | \$ 24,450 | \$ 28,990 | \$ 275,200 |
| Assets - held-for-sale | | 11,585 | | 11,585 |
| Assets - discontinued operations | 754 | | | 754 |
| Total assets | \$ 222,514 | \$ 36,035 | \$ 28,990 | \$ 287,539 |

Note 8. 98.7FM New York Intellectual Property Sale, LMA and Related Financing Transaction*Sale of WRKS-FM Intellectual Property*

On April 5, 2012, the Company entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with YMF Media LLC ("YMF"). Yucaipa Corporate Initiatives Fund II, L.P., Yucaipa Corporate Initiatives (Parallel) Fund II, L.P., Fortress Credit Funding I, LP., Drawbridge Special Opportunities Fund Ltd. and CF ICBC LLC agreed to guarantee certain obligations of the Purchaser under the Asset Purchase Agreement.

Pursuant to the Asset Purchase Agreement, the Company agreed to sell certain intellectual property rights, described below, to YMF, and YMF agreed to also assume certain liabilities of the Company. The purchase price was \$10.0 million, plus quarterly earn-out payments, if any, equal to 15% of the incremental gross revenue over a three-year period in excess of calendar 2011 gross revenues attributable to radio station WBLS-FM, 107.5FM, New York, NY, which is owned by YMF. The assets sold to YMF included intellectual property rights used or held for use by the Company exclusively in the business or operation of 98.7FM, and all assignable registrations, applications, renewals, issuances, extensions, restorations and reversions for, in respect of or relating to the intellectual property. The Asset Purchase Agreement contained customary representations, warranties, covenants and indemnities.

The sale of WRKS-FM's intellectual property became effective on May 7, 2012. The \$10.0 million gain is reflected in gain on sale of in the accompanying condensed consolidated statements of operations. Emmis collected the \$10.0 million intellectual property sale proceeds on July 6, 2012 and used the entire amount to repay term loans under the Company's Credit Agreement.

98.7FM Local Programming and Marketing Agreement

On April 26, 2012, the Company entered into an LMA with New York AM Radio, LLC ("Programmer") pursuant to which, commencing April 30, 2012, Programmer purchased from Emmis the right to provide programming on 98.7FM (the "Station") until August 31, 2024, subject to certain conditions. Disney Enterprises, Inc., the parent company of Programmer, has guaranteed the obligations of Programmer under the LMA. The Company retains ownership and control of the Station, including the related FCC license, during the term of the LMA and will receive an annual fee from Programmer of \$8.4 million for the first year of the term under the LMA, which fee will increase by 3.5% each year thereafter until the LMA's termination. LMA fee revenue is recorded on a straight-line basis over the term of the LMA. The Company assigned the LMA to a wholly-owned, newly-formed subsidiary (the "Financing Subsidiary") in connection with the funding of the 98.7FM nonrecourse debt under the Participation Agreement, each as described below.

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Issuance of 98.7FM Nonrecourse Debt

On April 26, 2012, the Financing Subsidiary and a subsidiary of the Financing Subsidiary, which was formed to hold the FCC License for the Station (the License Subsidiary), entered into a Participation Agreement (the Participation Agreement) with Wells Fargo and TIAA. On May 30, 2012, subsequent to the contribution of certain assets including the FCC License of 98.7FM to the License Subsidiary, the Company closed on the financing under the Participation Agreement with Wells Fargo and TIAA. Pursuant to the Participation Agreement, Wells Fargo sold to TIAA a 100% participation interest in a 4.10% promissory note issued, jointly and severally, by the Financing Subsidiary and the License Subsidiary in the principal amount of approximately \$82.2 million (the 98.7FM Note). The 98.7FM Note will mature on August 1, 2024 and bears interest at a rate equal to 4.10% per annum. Principal payments to be made under the note are described in Note 4. The 98.7FM Note is principally secured by, among other things, an assignment of the proceeds of the 98.7FM LMA and a guarantee by Disney Enterprises, Inc. As evidence of TIAA's purchase of the participation interest in the 98.7FM Note, TIAA received a Pass-Through Certificate which entitles TIAA to receive payments made under the 98.7FM Note. In its capacity as the trustee, Wells Fargo receives fees and expenses for undertaking certain obligations related to the 98.7FM Note.

Approximately \$74.7 million of the net proceeds from the 98.7FM Note were used to repay indebtedness under the senior credit agreement of Emmis Operating Company, including all amounts then outstanding under its revolver, \$4.3 million was retained by Emmis Operating Company for general corporate purposes, including the settlement of contract termination and severance obligations related to 98.7FM as well as Extended Term Loan B exit fee obligations, and the remainder was used to pay transaction costs. Approximately \$3.2 million of transaction fees related to the issuance of the 98.7FM Note were capitalized and are being amortized over the life of the 98.7FM Note, which fully matures in August 2024, which coincides with the expiration of the 98.7FM LMA. These deferred debt costs are included in other assets, net in the condensed consolidated balance sheet.

The Company expects that proceeds from the 98.7FM LMA will be sufficient to pay all debt service related to the 98.7FM Note, as well as all operating costs of the Station.

Note 9. Long-term Debt Amendments

Fifth Amendment to Credit Agreement, First Amendment to Senior Unsecured Notes

On March 20, 2012, Emmis entered into amendments of its senior secured credit facility and senior unsecured notes to allow us to issue Preferred Stock into the 2012 Retention Plan and Trust. These amendments did not change any financial covenants, but amended certain provisions of the Credit Agreement and senior unsecured notes to allow Emmis to contribute shares to the 2012 Retention Plan and Trust Agreement as discussed in Note 2.

Sixth Amendment to Credit Agreement, Second Amendment to Senior Unsecured Notes

On April 26, 2012, Emmis entered into amendments of its senior secured credit facility and senior unsecured notes to allow for the entry into the agreements and consummation of the 98.7FM transactions described in Note 8 above. In addition, the sixth amendment to the Credit Agreement reduced the amount of required minimum trailing twelve-month Consolidated EBITDA (as defined in the credit agreement) from \$25 million to \$24 million and allowed for \$20 million of the net proceeds received from the 98.7FM Note to be used for revolver repayment and general corporate purposes, while simultaneously reducing the revolver commitment from \$20 million to \$10 million.

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Waiver and Amendment to Credit Agreement, Third Amendment to Senior Unsecured Notes

On August 3, 2012, Emmis entered into amendments of its senior secured credit facility and senior unsecured notes in order (i) to allow Emmis to retain up to \$4.0 million of the proceeds from the sale of KXOS-FM, (ii) to provide for an increase in the exit fee from 6% to 7% under the backstop letter, dated March 27, 2011, on amounts outstanding on our Extended Term Loans after application of proceeds of the KXOS-FM sale and (iii) to allow Emmis to enter into an LMA with a purchase obligation for two radio stations in Terre Haute, Indiana, with such LMA monthly fee payable not to exceed five thousand dollars and a purchase price under the associated purchase obligation not to exceed \$0.4 million.

Seventh Amendment to Credit Agreement

On August 30, 2012, Emmis entered into an amendment of its senior secured credit facility in order to allow Emmis to revert to the 5.0:1.0 Total Leverage Ratio financial covenant (as defined in the Credit Agreement) as of August 31, 2012 and eliminate the Minimum Consolidated EBITDA financial covenant (as defined in the Credit Agreement) as of the same period.

Note 10. Investment in Courseload, Inc.

On May 1, 2012, the Company purchased \$2.0 million of preferred stock of Courseload, Inc., a provider of online textbooks and other course material. On August 1, 2012, Emmis purchased an additional \$1.5 million of preferred stock of Courseload, Inc. Emmis can, at its discretion, purchase up to an additional \$2.5 million of preferred stock in Courseload, Inc. during its fiscal year ending February 2013. Subsequent to the August 1, 2012 purchase of preferred stock, Emmis can redeem the preferred stock at any date after four years from the original purchase date at an amount equal to the original investment. This investment is an available-for-sale debt security accounted for at fair value under the provisions of ASC 320 and is included in other assets, net in the accompanying condensed consolidated balance sheets.

Note 11. Sale of KXOS-FM

On August 23, 2012, Emmis completed the sale of KXOS-FM pursuant to the Put and Call Agreement, as amended, originally entered into on April 3, 2009. Emmis received gross proceeds from the sale of \$85.5 million, incurred approximately \$1.9 million in transaction expenses and tax obligations, retained \$4 million for working capital purposes, and used the remaining \$79.6 million to repay term loans under the Company's Credit Agreement. Emmis recognized a gain on sale of KXOS-FM of \$32.8 million, which is included in gain from discontinued operations, net of tax in the accompanying condensed consolidated statements of income.

Note 12. Regulatory, Legal and Other Matters

Emmis is a party to various legal proceedings arising in the ordinary course of business. In the opinion of management of the Company, however, there are no legal proceedings pending against the Company that we believe are likely to have a material adverse effect on the Company.

Emmis and certain of its officers and directors are named as defendants in a lawsuit filed by certain holders of Preferred Stock (the Lock-Up Group) April 16, 2012, in the United States District Court for the Southern District of Indiana entitled *Corre Opportunities Fund, LP, et al. v. Emmis Communications Corporation, et al.* The plaintiffs allege that Emmis and the other defendants violated various provisions of the federal securities laws and breached fiduciary duties in connection with Emmis' entry into total return swap agreements and voting agreements with certain holders of Emmis Preferred Stock, and in issuing shares of Preferred Stock to Emmis' 2012 Retention

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Plan and Trust (the Trust) and entering into a voting agreement with the trustee of the Trust. The plaintiffs also allege that Emmis violated certain provisions of Indiana corporate law by directing the voting of the shares of Preferred Stock subject to the total return swap agreements (the Swap Shares) and the shares of Preferred Stock held by the Trust (the Trust Shares) in favor of certain amendments to Emmis' Articles of Incorporation. The plaintiffs had been seeking injunctive relief (see below) and still seek declaratory relief.

Emmis filed an answer denying the material allegations of the complaint, and has filed a counterclaim seeking a declaratory judgment that Emmis may legally direct the voting of the Swap Shares and the Trust Shares in favor of the proposed amendments. Emmis is defending this lawsuit vigorously.

Although the date of any ruling by the U.S. District Court in the federal litigation (including the Lock-Up Group's claims and Emmis' counterclaim for declaratory judgment) cannot be predicted with certainty, the U.S. District Court ruled on the Lock-Up Group's claim for injunctive relief on August 31, 2012. In that ruling, the U.S. District Court denied the preliminary injunction on the grounds that plaintiffs were unlikely to succeed on the merits of the case, and that there was an adequate remedy at law.

Certain individuals and groups have challenged applications for renewal of the FCC licenses of certain of the Company's stations. The challenges to the license renewal applications are currently pending before the FCC. Emmis does not expect the challenges to result in the denial of any license renewals.

Note 13. Subsequent Events

September 4, 2012 Amendments to the Articles of Incorporation

On September 4, 2012, following approval by the Company's shareholders, the Company filed amendments to its Articles of Incorporation that modify the rights of holders of the Company's Preferred Stock. The amendments:

cancel the amount of undeclared dividends in respect of the Preferred Stock that is accumulated but undeclared on or prior to the effectiveness of the Proposed Amendments;

change the designation of the Preferred Stock from Cumulative to Non-Cumulative and change the rights of the holders of the Preferred Stock such that dividends or distributions on the Preferred Stock will not accumulate unless declared by the board of directors and subsequently not paid (and thereby effectively cancel associated rights to elect directors in the event of dividend arrearages);

cancel the restrictions on Emmis' ability to pay dividends or make distributions on, or repurchase, its Common Stock or other junior stock prior to paying accumulated but undeclared dividends or distributions on the Preferred Stock;

change the ability of the holders of the Preferred Stock to require Emmis to repurchase all of such holders' Preferred Stock upon certain going-private transactions in which an affiliate of Mr. Smulyan participates that do not constitute a change of control transaction, to cause the holders of the Preferred Stock to no longer have such ability;

change the ability of the holders of the Preferred Stock to convert all of such Preferred Stock to Class A Common Stock upon a change of control at specified conversion prices to cause the holders of the Preferred Stock to no longer have such ability;

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change the ability of holders of the Preferred Stock to vote as a separate class on a plan of merger, share exchange, sale of assets or similar transaction to the ability to vote with the Common Stock on an as-converted basis (except as may otherwise be required by law); and

change the conversion price adjustment applicable to certain merger, reclassification and other transactions to provide that the Preferred Stock converts into the right to receive property that would have been receivable had such Preferred Stock been converted into Class A Common Stock immediately prior to such transaction.

As a result of the elimination of the rights of holders of Preferred Stock to require Emmis to repurchase all of such holders' Preferred Stock, the Preferred Stock will be reclassified from temporary equity to permanent equity. Additionally, the cancellation of the cumulative feature of the Preferred Stock and the cancellation of accumulated but undeclared preferred dividends modifies future earnings per share calculations as the numerator in the calculation will no longer include undeclared preferred dividends. Changes to the presentation of preferred stock on the condensed consolidated balance sheet and the condensed consolidated statements of operations, including earnings per share, will be included in our November 30, 2012 Form 10-Q as the Articles of Incorporation were modified subsequent to August 31, 2012.

September 19, 2012 Termination of Total Return Swaps

In order to comply with the terms of its Credit Agreement, Emmis exercised its early termination option under the total return swap transactions that it had entered into with certain holders of 1,484,679 shares of its Preferred Stock. The termination was effective on September 19, 2012. As a result, the 1,484,679 shares of Preferred Stock have returned to the status of authorized but unissued shares, leaving 1,337,641 shares of Preferred Stock outstanding, which includes 400,000 shares held pursuant to the Employee Retention Trust described in Note 2.

October 1, 2012 Sale of Country Sampler and Related Magazines

On October 1, 2012, Emmis completed the sale of Country Sampler and related magazines and certain real estate used in their operations to subsidiaries of DRG Holdings, LLC. Emmis received gross proceeds from the sale of \$8.7 million, incurred approximately \$0.2 million in transaction expenses and tax obligations, and used the remaining \$8.5 million to repay term loans under the Company's Credit Agreement.

October 4, 2012 Marketron Assumption of Operating Control of Emmis Interactive

On October 2, 2012, Emmis entered into a non-binding letter of intent with Marketron Broadcast Solutions, LLC (Marketron), pursuant to which, effective October 4, 2012, Marketron assumed operating control of Emmis Interactive, Inc., a subsidiary of Emmis that provides a content management system, data analytic tools, and related services principally to radio operators. Under the terms of the letter of intent, Emmis retains an economic interest in future revenues associated with certain intellectual property developed by Emmis Interactive, Inc. Closing of this transaction is expected on or before October 31, 2012, and is subject to completion of due diligence, negotiation of a definitive purchase agreement, and other customary closing conditions.

The net revenues of Emmis Interactive, a component of our radio segment, in the twelve months ended August 31, 2012 were approximately \$4.9 million and it operated with a negative margin. In connection with the transaction, Emmis agreed to pay approximately \$0.6 million in severance costs for employees not being retained by Marketron.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Note: Certain statements included in this report or in the financial statements contained herein which are not statements of historical fact, including but not limited to those identified with the words expect, should, will or look are intended to be, and are, by this Note, identified as forward-looking statements, as defined in the Securities and Exchange Act of 1934, as amended. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future result, performance or achievement expressed or implied by such forward-looking statement. Such factors include, among others:

general economic and business conditions;

fluctuations in the demand for advertising and demand for different types of advertising media;

our ability to service our outstanding debt;

loss of key personnel;

increased competition in our markets and the broadcasting industry;

our ability to attract and secure programming, on-air talent, writers and photographers;

inability to obtain (or to obtain timely) necessary approvals for purchase or sale transactions or to complete the transactions for other reasons generally beyond our control;

increases in the costs of programming, including on-air talent;

new or changing regulations of the Federal Communications Commission or other governmental agencies;

changes in radio audience measurement methodologies;

competition from new or different technologies;

war, terrorist acts or political instability; and

other factors mentioned in other documents filed by the Company with the Securities and Exchange Commission.

For a more detailed discussion of these and other risk factors, see the Risk Factors section of our Annual Report on Form 10-K, for the year ended February 29, 2012. Emmis does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise.

GENERAL

We are a diversified media company. We own and operate radio and publishing properties located primarily in the United States. Our revenues are mostly affected by the advertising rates our entities charge, as advertising sales represent approximately 70% of our consolidated revenues. These rates are in large part based on our entities' ability to attract audiences/subscribers in demographic groups targeted by their advertisers. Arbitron Inc. generally measures radio station ratings in our domestic markets on a weekly basis using a passive digital system of measuring listening (the Portable People Meter™). Because audience ratings in a station's local market are critical to the station's financial success, our strategy is to use market research and advertising and promotion to attract and retain audiences in each station's chosen demographic target group.

Our revenues vary throughout the year. As is typical in the broadcasting industry, our revenues and operating income are usually lowest in our fourth fiscal quarter.

In addition to the sale of advertising time for cash, stations typically exchange advertising time for goods or services, which can be used by the station in its business operations. These barter transactions are recorded at the estimated fair value of the product or service received. We generally confine the use of such trade transactions to promotional items or services for which we would otherwise have paid cash. In addition, it is our general policy not to pre-empt advertising spots paid for in cash with advertising spots paid for in trade.

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The following table summarizes the sources of our revenues for the three-month and six-month periods ended August 31, 2011 and 2012. All revenues generated by our international radio properties are included in the Local category. The category Non Traditional principally consists of ticket sales and sponsorships of events our stations and magazines conduct in their local markets. The category Other includes, among other items, revenues generated by the websites of our entities and barter.

| | Three Months Ended August 31, | | | | Six Months Ended August 31, | | | |
|---------------------------|-------------------------------|------------|------------------|------------|-----------------------------|------------|-------------------|------------|
| | 2011 | % of Total | 2012 | % of Total | 2011 | % of Total | 2012 | % of Total |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Net revenues: | | | | | | | | |
| Local | \$ 32,726 | 53.3% | \$ 28,999 | 50.4% | \$ 67,475 | 57.0% | \$ 59,342 | 53.8% |
| National | 8,979 | 14.6% | 8,076 | 14.0% | 18,009 | 15.2% | 16,238 | 14.7% |
| Political | 85 | 0.1% | 237 | 0.4% | 351 | 0.3% | 1,100 | 1.0% |
| Publication Sales | 1,572 | 2.6% | 1,491 | 2.6% | 3,181 | 2.7% | 3,043 | 2.8% |
| Non Traditional | 9,048 | 14.7% | 8,749 | 15.2% | 12,004 | 10.1% | 11,867 | 10.8% |
| LMA Fees | 310 | 0.5% | 2,582 | 4.5% | 310 | 0.3% | 3,443 | 3.1% |
| Other | 8,624 | 14.2% | 7,435 | 12.9% | 17,140 | 14.5% | 15,254 | 13.8% |
| Total net revenues | \$ 61,344 | | \$ 57,569 | | \$ 118,470 | | \$ 110,287 | |

As previously mentioned, we derive approximately 70% of our net revenues from advertising sales. Our radio stations derive a higher percentage of their advertising revenues from local sales than our publishing entities. In the six-month period ended August 31, 2012, local sales, excluding political revenues, represented approximately 83% and 61% of our advertising revenues for our radio and publishing divisions, respectively.

No customer represents more than 10% of our consolidated net revenues. Our top ten categories for radio represent approximately 62% of our radio division's total advertising net revenues for the six-month periods ended August 31, 2011 and 2012. The automotive industry was the largest category for our radio division for the six-month periods ended August 31, 2011 and 2012, representing approximately 10% and 11% of our radio net revenues, respectively.

The majority of our expenses are fixed in nature, principally consisting of salaries and related employee benefit costs, office and tower rent, utilities, property and casualty insurance and programming-related expenses. However, approximately 20% of our expenses vary in connection with changes in revenues. These variable expenses primarily relate to sales commissions and bad debt reserves. In addition, costs related to our marketing and promotions department are highly discretionary and incurred primarily to maintain and/or increase our audience and market share.

KNOWN TRENDS AND UNCERTAINTIES

Although advertising revenues have stabilized following the recent global recession, domestic radio revenue growth has been challenged for several years. Management believes this is principally the result of three factors: (1) the proliferation of advertising inventory caused by the emergence of new media, such as various media distributed via the Internet, telecommunication companies and cable interconnects, as well as social networks and social coupon sites, all of which are gaining advertising share against radio and other traditional media, (2) the perception of investors and advertisers that satellite radio and portable media players diminish the effectiveness of radio advertising, and (3) the adoption of a new method of gathering ratings data, which has shown an increase in cumulative audience size, but a decrease in time spent listening as compared to the previous method of gathering ratings data.

The Company and the radio industry have begun several initiatives to address these issues. The radio industry

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is working aggressively to increase the number of portable digital media devices that contain an FM tuner, including smartphones and music players. In many countries, FM tuners are common features in portable digital media devices. The radio industry is working with leading United States network providers, device manufacturers, regulators and legislators to ensure that FM tuners are included in future portable digital media devices. Including FM as a feature on these devices has the potential to increase radio listening and improve perception of the radio industry while offering network providers the benefits of a proven emergency notification system, reduced network congestion from audio streaming services, and a host of new revenue generating applications.

The Company has also aggressively worked to harness the power of broadband and mobile media distribution in the development of emerging business opportunities by becoming one of the fifteen largest streaming audio providers in the United States, developing highly interactive websites with content that engages our listeners, using SMS texting and delivering real-time traffic to navigation devices. We have created the Loud Digital Network, which combines our original content with other music and entertainment content to form one of the ten largest music and entertainment networks on the Internet.

Along with the rest of the radio industry, the majority of our stations have deployed HD Radio[®]. HD Radio[®] offers listeners advantages over standard analog broadcasts, including improved sound quality and additional digital channels. To make the rollout of HD Radio[®] more efficient, a consortium of broadcasters representing a majority of the radio stations in nearly all of our markets have agreed to work together in each radio market to ensure the most diverse consumer offering possible and to accelerate the rollout of HD Radio[®] receivers, particularly in automobiles. In addition to offering secondary channels, the HD Radio[®] spectrum allows broadcasters to transmit other forms of data. We are participating in a joint venture with other broadcasters to provide the bandwidth that a third party will use to transmit location-based data to hand-held and in-car navigation devices. It is unclear what impact HD Radio[®] will have on the markets in which we operate.

The results of our domestic radio operations are heavily dependent on the results of our stations in the New York and Los Angeles markets. These markets account for nearly 50% of our domestic radio net revenues. During fiscal 2012, KPWR-FM in Los Angeles experienced revenue growth that was better than the overall Los Angeles radio market, whereas our New York cluster trailed the revenue performance of the New York market due to weak performance at our adult urban station, WRKS-FM. During the three months ended May 31, 2012, we entered into an LMA for WRKS-FM. See Note 8 to the accompanying condensed consolidated financial statements for more discussion. Our results in New York and Los Angeles are often more volatile than our larger competitors due to our lack of scale in these markets. We are dependent on the performance of one station in each of these markets, and as the competitive environment shifts, our ability to adapt is limited. Furthermore, some of our competitors that operate larger station clusters in New York and Los Angeles are able to leverage their market share to extract a greater percentage of available advertising revenue through discounting unit rates.

As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, Emmis Operating Company's (the Company's principal operating subsidiary, hereinafter "EOC") Credit Agreement substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that encompass significant judgments and uncertainties, and potentially lead to materially different results under different assumptions and conditions. We believe that our critical accounting policies are those described below.

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Revenue Recognition

Broadcasting revenue is recognized as advertisements are aired. Publication revenue is recognized in the month of delivery of the publication. Both broadcasting revenue and publication revenue recognition is subject to meeting certain conditions such as persuasive evidence that an arrangement exists and collection is reasonably assured. LMA fee revenue is recognized on a straight-line basis over the term of the LMA. These criteria are generally met at the time the advertisement is aired for broadcasting revenue and upon delivery of the publication for publication revenue. Advertising revenues presented in the financial statements are reflected on a net basis, after the deduction of advertising agency fees, usually at a rate of 15% of gross revenues.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded based on management's judgment of the collectability of receivables. When assessing the collectability of receivables, management considers, among other things, historical loss experience and existing economic conditions.

FCC Licenses and Goodwill

We have made acquisitions in the past for which a significant amount of the purchase price was allocated to FCC licenses and goodwill assets. As of August 31, 2012, including amounts classified as held-for-sale, we have recorded approximately \$173.9 in goodwill and FCC licenses, which represents approximately 60% of our total assets.

In the case of our U.S. radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future. We consider our FCC licenses to be indefinite-lived intangibles. Our foreign broadcasting licenses expire during periods ranging from February 2021 to February 2026. While all of our international broadcasting licenses were recently extended, we will need to submit extension applications upon their expiration to continue our broadcast operations in these countries. While there is a general expectancy of renewal of radio broadcast licenses in most countries and we expect to actively seek renewal of our foreign licenses, both of the countries in which we operate do not have the regulatory framework or history that we have with respect to license renewals in the United States. This makes the risk of non-renewal (or of renewal on less favorable terms) of foreign licenses greater than for United States licenses. We treat our foreign broadcasting licenses as definite-lived intangibles and amortize them over their respective license periods.

We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired. When evaluating our radio broadcasting licenses for impairment, the testing is performed at the unit of accounting level as determined by Accounting Standards Codification (ASC) Topic 350-30-35. In our case, radio stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under an LMA by another broadcaster.

We complete our annual impairment tests on December 1 of each year and perform additional interim impairment testing whenever triggering events suggest such testing is warranted.

Valuation of Indefinite-lived Broadcasting Licenses

Fair value of our FCC licenses is estimated to be the price that would be received to sell an asset in an orderly

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transaction between market participants at the measurement date. To determine the fair value of our FCC licenses, the Company uses an income valuation method when it performs its impairment tests. Under this method, the Company projects cash flows that would be generated by each of its units of accounting assuming the unit of accounting was commencing operations in its respective market at the beginning of the valuation period. This cash flow stream is discounted to arrive at a value for the FCC license. The Company assumes the competitive situation that exists in each market remains unchanged, with the exception that its unit of accounting commenced operations at the beginning of the valuation period. In doing so, the Company extracts the value of going concern and any other assets acquired, and strictly values the FCC license. Major assumptions involved in this analysis include market revenue, market revenue growth rates, unit of accounting audience share, unit of accounting revenue share and discount rate. Each of these assumptions may change in the future based upon changes in general economic conditions, audience behavior, consummated transactions, and numerous other variables that may be beyond our control.

Valuation of Goodwill

ASC Topic 350 requires the Company to test goodwill for impairment at least annually using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of impairment. The Company conducts the two-step impairment test on December 1 of each fiscal year, unless indications of impairment exist during an interim period. When assessing its goodwill for impairment, the Company uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units (radio stations grouped by market and magazines on an individual basis). Management determines enterprise value for each of its reporting units by multiplying the two-year average station operating income generated by each reporting unit (current year based on actual results and the next year based on budgeted results) by an estimated market multiple. The Company uses a blended station operating income trading multiple of publicly traded radio operators as a benchmark for the multiple it applies to its radio reporting units. There are no publicly traded publishing companies that are focused predominantly on city and regional magazines as is our publishing segment. Therefore, the market multiple used as a benchmark for our publishing reporting units is based on recently completed transactions within the city and regional magazine industry or analyst reports that include valuations of magazine divisions within publicly traded media conglomerates. Management believes this methodology for valuing radio and publishing properties is a common approach and believes that the multiples used in the valuation are reasonable given our peer comparisons and recent market transactions. To corroborate the step-one reporting unit fair values determined using the market approach described above, management also uses an income approach, which is a discounted cash flow method to determine the fair value of the reporting unit.

This enterprise valuation is compared to the carrying value of the reporting unit for the first step of the goodwill impairment test. If the reporting unit exhibits impairment, the Company proceeds to the second step of the goodwill impairment test. For its step-two testing, the enterprise value is allocated among the tangible assets, indefinite-lived intangible assets (FCC licenses valued using a direct-method valuation approach) and unrecognized intangible assets, such as customer lists, with the residual amount representing the implied fair value of the goodwill. To the extent the carrying amount of the goodwill exceeds the implied fair value of the goodwill, the difference is recorded as an impairment charge in the statement of operations.

Deferred Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequence of events that have been recognized in the Company's financial statements or income tax returns. Income taxes are recognized during the year in which the underlying transactions are reflected in the consolidated statements of operations. Deferred taxes are provided for temporary differences between amounts of assets and liabilities as recorded for financial reporting purposes and amounts recorded for income tax purposes. After determining the total amount of deferred tax assets, the Company

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determines whether it is more likely than not that some portion of the deferred tax assets will not be realized. If the Company determines that a deferred tax asset is not likely to be realized, a valuation allowance will be established against that asset to record it at its expected realizable value.

Estimate of Effective Tax Rates

We estimate the effective tax rates and associated liabilities or assets for each legal entity within Emmis. These estimates are based upon our interpretation of United States and local tax laws as they apply to our legal entities and our overall tax structure. Audits by local tax jurisdictions, including the United States Government, could yield different interpretations from our own and cause the Company to owe more taxes than originally recorded. We utilize advisors in the various tax jurisdictions to evaluate our position and to assist in our calculation of our tax expense and related assets and liabilities.

Results of Operations for the Three-month Periods and Six-month Periods Ended August 31, 2012, Compared to August 31, 2011**Net revenues:**

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|--------------------|---------------------------------------|-----------|------------|----------|-------------------------------------|------------|------------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Net revenues: | | | | | | | | |
| Radio | \$ 48,278 | \$ 44,604 | \$ (3,674) | (7.6)% | \$ 91,898 | \$ 83,230 | \$ (8,668) | (9.4)% |
| Publishing | 13,066 | 12,965 | (101) | (0.8)% | 26,572 | 27,057 | 485 | 1.8% |
| Total net revenues | \$ 61,344 | \$ 57,569 | \$ (3,775) | (6.2)% | \$ 118,470 | \$ 110,287 | \$ (8,183) | (6.9)% |

Radio net revenues decreased in the three-month and six-month periods ended August 31, 2012 as compared to the same period of the prior year principally due to the July 15, 2011 commencement of a Local Marketing Agreement (LMA) related to the Merlin Stations and the ultimate sale of a controlling interest in these stations on September 1, 2011. As Emmis retained a noncontrolling equity ownership in the Merlin Stations, they have not been classified as discontinued operations. Also, the operating results for 98.7FM (formerly known as WRKS-FM in New York) as an adult urban station through April 30, 2012 and the LMA fee revenue recognized since April 30, 2012 have not been classified as discontinued operations. Excluding the Merlin Stations and 98.7FM (WRKS), radio net revenues would have increased \$0.6 million or 1.6% and \$1.4 million or 1.9% for the three-month and six-month periods ended August 31, 2012, respectively.

We typically monitor the performance of our domestic stations against the aggregate performance of the markets in which we operate based on reports for the periods prepared by Miller Kaplan. Miller Kaplan reports are generally prepared on a gross revenues basis and exclude revenues from barter arrangements. Miller Kaplan reported gross revenues for our domestic radio markets decreased 0.4% for the six-month period ended August 31, 2012 as compared to the same period of the prior year. Excluding the Merlin Stations, our gross revenues as reported to Miller Kaplan increased 2.7% for the six-month period ended August 31, 2012 as compared to the same period of the prior year. For the six-month period ending August 31, 2012, our gross revenues exceeded the market average in New York, Los Angeles and Indianapolis, but trailed market performance in St. Louis and Austin. Miller Kaplan does not report gross revenue market data for our Terre Haute market. For the six-month period ended August 31, 2012 as compared to the same period of the prior year, our average rate per minute for our domestic radio stations was down 3.1%, and our minutes sold were up 5.1%.

Publishing net revenues increased in the six-month period ended August 31, 2012 as compared to the same period of the prior year mostly due to performance of our Texas Monthly and Los Angeles Magazine publications. While these publications saw improvement in advertising demand, the advertising market for our smaller market publications remains challenged.

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| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|--|---------------------------------------|-----------|------------|----------|-------------------------------------|-----------|------------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Station operating expenses excluding depreciation and amortization expense: | | | | | | | | |
| Radio | \$ 37,754 | \$ 30,257 | \$ (7,497) | (19.9)% | \$ 70,678 | \$ 60,837 | \$ (9,841) | (13.9)% |
| Publishing | 12,902 | 13,790 | 888 | 6.9% | 27,383 | 28,042 | 659 | 2.4% |
| Total station operating expenses excluding depreciation and amortization expense | \$ 50,656 | \$ 44,047 | \$ (6,609) | (13.0)% | \$ 98,061 | \$ 88,879 | \$ (9,182) | (9.4)% |

Station operating expenses, excluding depreciation and amortization expense for the three-month and six-month periods ended August 31, 2012 were significantly affected by the LMA of the Merlin Stations in the prior year and the LMA of 98.7FM in the current year. In connection with the LMA of 98.7FM, the Company incurred approximately \$3.4 million of costs, predominately related to contract termination payments and severance costs. As Emmis retained a noncontrolling equity interest in the Merlin Stations, the results of those stations are included in continuing operations in the prior year. Station operating expenses excluding depreciation and amortization expense for the Merlin Stations in the prior year were \$6.5 million and \$11.7 million for the three-month and six-month periods ended August 31, 2011. Excluding both the 98.7FM transaction costs and the station operating expenses excluding depreciation and amortization of the Merlin Stations, radio station operating expenses, excluding depreciation and amortization expense for the three-month and six month periods ending August 31, 2012 would have decreased \$1.1 million or 3.6% and \$1.5 million or 2.6%, respectively, due to lower operating expenses for 98.7FM (WRKS) as a result of the LMA.

Station operating expenses excluding depreciation and amortization expense for publishing for the three-month period and six-month period ended August 31, 2012 include a company-wide, nonrecurring employee bonus of \$0.4 million as well as investments in sales personnel and training.

Corporate expenses excluding depreciation and amortization expense:

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|--|---------------------------------------|----------|-----------|----------|-------------------------------------|----------|------------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Corporate expenses excluding depreciation and amortization expense | \$ 2,969 | \$ 4,161 | \$ 1,192 | 40.1% | \$ 10,304 | \$ 9,133 | \$ (1,171) | (11.4)% |

During the six-month period ending August 31, 2011, the Company incurred approximately \$3.0 million of fees in connection with the Third Amendment to our Credit Agreement and paid a nonrecurring \$0.7 million bonus to certain employees.

During the six-month period ending August 31, 2012, the Company incurred approximately \$2.1 million of legal costs in connection with litigation related to our Preferred Stock and incurred \$1.5 million related to a company-wide, nonrecurring employee bonus.

Impairment loss:

| | For the three months ended August 31, | | | For the six months ended August 31, | | |
|------------------|---------------------------------------|------|-----------|-------------------------------------|------|-----------|
| | 2011 | 2012 | \$ Change | 2011 | 2012 | \$ Change |
| | (As reported, amounts in thousands) | | | (As reported, amounts in thousands) | | |
| Impairment loss: | | | | | | |

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| | | | | | | |
|-----------------------|----|--------|--------|----|-----------|-----------|
| Radio Publishing | \$ | \$ 737 | \$ 737 | \$ | \$ 11,708 | \$ 11,708 |
| Total impairment loss | \$ | \$ 737 | \$ 737 | \$ | \$ 11,708 | \$ 11,708 |

Pursuant to the Company's accounting policy, a station operating under an LMA is considered a single unit of accounting. In connection with the execution of the 98.7FM LMA, the Company determined that the 98.7FM FCC

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License, now considered a single unit of accounting, was impaired, and recorded an \$11.0 million impairment charge. Additionally, during the three-month period ended August 31, 2012 the company recorded a \$0.7 million impairment charge related to the long-term assets of one of its businesses in the radio segment as it determined the carrying value of the business' long-lived assets were not recoverable based upon the Company's current estimates of future cash flows.

Depreciation and amortization:

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|--|---------------------------------------|-----------------|-----------------|----------------|-------------------------------------|-----------------|-----------------|----------------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Depreciation and amortization: | | | | | | | | |
| Radio | \$ 1,594 | \$ 919 | \$ (675) | (42.3)% | \$ 3,206 | \$ 1,924 | \$ (1,282) | (40.0)% |
| Publishing | 98 | 82 | (16) | (16.3)% | 192 | 168 | (24) | (12.5)% |
| Corporate | 282 | 489 | 207 | 73.4% | 546 | 950 | 404 | 74.0% |
| Total depreciation and amortization | \$ 1,974 | \$ 1,490 | \$ (484) | (24.5)% | \$ 3,944 | \$ 3,042 | \$ (902) | (22.9)% |

The decrease in radio depreciation expense for the three-month and six-month periods ended August 31, 2012 is mostly attributable to certain assets becoming fully depreciated; thus the Company has ceased to record depreciation expense on those assets. Also, property and equipment of the Merlin stations has been sold and is no longer being depreciated and our license in Slovakia was extended by an additional eight years and is now being amortized through February 2021. The increase in corporate depreciation and amortization expense is mostly related to new computer equipment and software that has been recently placed into service.

(Gain) loss on sale of assets:

| | For the three months ended August 31, | | | For the six months ended August 31, | | |
|--|---------------------------------------|---------------|-----------------|-------------------------------------|--------------------|--------------------|
| | 2011 | 2012 | \$ Change | 2011 | 2012 | \$ Change |
| | (As reported, amounts in thousands) | | | (As reported, amounts in thousands) | | |
| (Gain) loss on sale of assets: | | | | | | |
| Radio | \$ 794 | \$ (3) | \$ (797) | \$ 791 | \$ (10,003) | \$ (10,794) |
| Publishing | 1 | (3) | (4) | 1 | (3) | (4) |
| Total (gain) loss on sale of assets | \$ 795 | \$ (6) | \$ (801) | \$ 792 | \$ (10,006) | \$ (10,798) |

In April 2012, Emmis sold the intellectual property of WRKS-FM in New York for \$10.0 million. The loss in the prior year relates to the sale of our Terre Haute, Indiana building.

Operating income (loss):

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|---------------------------------|---------------------------------------|-----------|-----------|------------|-------------------------------------|-----------|-----------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Operating income (loss): | | | | | | | | |
| Radio | \$ 8,136 | \$ 12,694 | \$ 4,558 | 56.0% | \$ 17,223 | \$ 18,764 | \$ 1,541 | 8.9% |
| Publishing | 65 | (904) | (969) | (1,490.8)% | (1,004) | (1,150) | (146) | 14.5% |
| Corporate | (3,251) | (4,650) | (1,399) | (43.0)% | (10,850) | (10,083) | 767 | 7.1% |

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| | | | | | | | | |
|-------------------------|----------|----------|----------|-------|----------|----------|----------|-------|
| Total operating income: | \$ 4,950 | \$ 7,140 | \$ 2,190 | 44.2% | \$ 5,369 | \$ 7,531 | \$ 2,162 | 40.3% |
|-------------------------|----------|----------|----------|-------|----------|----------|----------|-------|

Radio operating income increased in the three-month period ended August 31, 2012 predominately due to the significant costs recorded during the three-month period ended August 31, 2011 related to the Merlin transaction coupled with the April 30, 2012 commencement of the 98.7FM LMA. In the six-month period ending August 31, 2012, the impact of the sale of the Merlin Stations, the impairment losses and the gain on sale of WRKS-FM intellectual property substantially negate one another.

Publishing operating income decreased predominately due to operating expense increases as noted above.

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Corporate operating losses varied during the three-month and six-month periods ended August 31, 2012 predominately due to significant transaction-related, nonrecurring costs, as noted above.

Interest expense:

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|------------------|---------------------------------------|----------|-----------|----------|-------------------------------------|-----------|-----------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Interest expense | \$ 6,277 | \$ 7,277 | \$ 1,000 | 15.9% | \$ 11,853 | \$ 13,444 | \$ 1,591 | 13.4% |

Although amounts outstanding under the Company's Credit Agreement have decreased significantly since May 31, 2011, interest expense increased during the three-month and six-month periods ended August 31, 2012. The increase in interest expense is mostly attributable to the issuance of senior unsecured notes in November 2011 and February 2012, which bear interest at 22.95%. Also contributing to the increase in interest expense is the exit fee that is due upon repayment of a portion of our term loans. The Company is accruing this exit fee, now 7% after amendments to the Credit Agreement, ratably over the term of the Extended Term Loans as a component of interest expense. In periods in which the exit fee payment exceeds accrued exit fees, the Company charges the difference immediately to interest expense.

A portion of the term loans outstanding under our Credit Agreement are required to be paid in connection with asset sales. Consistent with ASC 205-20-45-6, Emmis has allocated interest expense related to the portion of term loans that are required to be repaid with asset sale proceeds from the KXOS-FM and Country Sampler transactions to discontinued operations. See Note 1 to the accompanying condensed consolidated financial statements for more discussion of discontinued operations.

Loss on debt extinguishment:

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|-----------------------------|---------------------------------------|--------|-----------|----------|-------------------------------------|----------|-----------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Loss on debt extinguishment | \$ | \$ 601 | \$ 601 | | \$ 1,478 | \$ 1,085 | \$ (393) | (26.6)% |

The loss on debt extinguishment for the six-month period ended August 31, 2011 includes a \$1.5 million charge on debt extinguishment related to the write-off of debt fees as a portion of our term loans were deemed to be substantially modified in connection with the Third Amendment. During the three-month and six-month periods ended August 31, 2012, the Company recorded losses on debt extinguishment related to the write-off of debt fees associated with term loans repaid during those periods.

Provision (benefit) for income taxes:

| | For the three months ended August 31, | | | | For the six months ended August 31, | | | |
|--------------------------------------|---------------------------------------|-------|-----------|----------|-------------------------------------|------------|------------|----------|
| | 2011 | 2012 | \$ Change | % Change | 2011 | 2012 | \$ Change | % Change |
| | (As reported, amounts in thousands) | | | | (As reported, amounts in thousands) | | | |
| Provision (benefit) for income taxes | \$ 727 | \$ 67 | \$ (660) | (90.8)% | \$ (1,963) | \$ (4,266) | \$ (2,303) | (117.3)% |

The Company is recording a valuation allowance for its net deferred tax assets, including its net operating loss carryforwards, but excluding deferred tax liabilities related to indefinite-lived intangibles. The provision associated with deferred tax liabilities related to indefinite-lived intangibles is estimated to be \$5 million in the fiscal year ending February 2013. The benefit in the six months ended August 31, 2011 principally relates to a benefit recorded in continuing operations to offset the income tax provision recorded in discontinued operations related to the sale of the Flint Peak Tower Site. The benefit in the six months ended August 31, 2012 principally relates to the tax benefit associated with our impairment loss on the 98.7FM FCC License.

Table of Contents**(Loss) gain from discontinued operations, net of tax:**

| | For the three months ended August 31, | | | For the six months ended August 31, | | |
|--|---------------------------------------|-----------|-----------|-------------------------------------|-----------|-----------|
| | 2011 | 2012 | \$ Change | 2011 | 2012 | \$ Change |
| | (As reported, amounts in thousands) | | | (As reported, amounts in thousands) | | |
| (Loss) gain from discontinued operations, net of tax | \$ (2,916) | \$ 41,208 | \$ 44,124 | \$ 342 | \$ 39,958 | \$ 39,616 |

Our Hungarian radio operations, the operations of our Flint Peak Tower Site, the operations of KXOS-FM and our Country Sampler operations have been classified as discontinued operations in the accompanying condensed consolidated statements. The increase in income from discontinued operations, net of tax, for the three-month and six-month periods ended August 31, 2012 mostly relates to the gain on sale recorded in connection with the August 2012 sale of KXOS-FM.

Consolidated net income (loss):

| | For the three months ended August 31, | | | For the six months ended August 31, | | |
|--------------------------------|---------------------------------------|-----------|-----------|-------------------------------------|-----------|-----------|
| | 2011 | 2012 | \$ Change | 2011 | 2012 | \$ Change |
| | (As reported, amounts in thousands) | | | (As reported, amounts in thousands) | | |
| Consolidated net income (loss) | \$ (4,622) | \$ 40,208 | \$ 44,830 | \$ (5,315) | \$ 37,335 | \$ 42,650 |

Consolidated net income increased due to the factors described above.

Liquidity and Capital Resources

Our primary sources of liquidity are cash provided by operations and cash available through revolver borrowings under our credit facility. Our primary uses of capital during the past few years have been, and are expected to continue to be, capital expenditures, working capital, debt service requirements and the repayment of debt.

At August 31, 2012, we had cash and cash equivalents of \$9.5 million and net working capital of \$16.9 million. At February 29, 2012, we had cash and cash equivalents of \$5.6 million and net working capital of \$0.8 million. The increase in working capital from February 29, 2012 is mostly due to additional cash on hand due to the August 23, 2012 sale of KXOS-FM, the repayment of all revolver borrowings as a result of the 98.7FM LMA and related financing and the seasonal nature of the business. Cash and cash equivalents held at various European banking institutions at February 29, 2012 and August 31, 2012 was \$4.3 million and \$3.8 million (which includes approximately \$0.7 million of cash related to our Slager discontinued operation which is classified as current assets discontinued operations in the condensed consolidated balance sheets), respectively. Our ability to access our share of these international cash balances (net of noncontrolling interests) is limited by country-specific statutory requirements.

On May 30, 2012, the Company, through wholly-owned, newly-created subsidiaries, issued \$82.2 million of nonrecourse notes. TIAA, through a participation agreement with Wells Fargo, is entitled to receive payments made on the notes. The notes are obligations only of the newly-created subsidiaries, are non-recourse to the rest of the Company's subsidiaries and are secured by the assets of the newly-created subsidiaries, including the payments made to the newly-created subsidiary related to the 98.7FM LMA, which are guaranteed by Disney Enterprises, Inc. The notes bear interest at 4.1%. See Note 8 for more discussion of the 98.7FM nonrecourse debt and LMA.

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Emmis collected the \$10.0 million intellectual property sale proceeds on July 6, 2012 and used the entire amount to repay term loans under the Company's Credit Agreement.

On August 23, 2012, Emmis completed the sale of KXOS-FM in Los Angeles for \$85.5 million in cash. In connection with the sale, Emmis recorded a gain on sale of assets of approximately \$32.8 million, which is included in gain from discontinued operations in the accompanying condensed consolidated statements of operations. Emmis incurred approximately \$1.9 million in transaction expenses and tax obligations, retained \$4 million for working capital purposes, and used the remaining \$79.6 million to repay indebtedness under Emmis' senior credit facility. KXOS-FM had previously been operating pursuant to a local programming and marketing agreement, which is discussed in more detail in Note 1.

On October 1, 2012, Emmis completed the sale of Country Sampler and related magazines and certain real estate used in their operations to subsidiaries of DRG Holdings, LLC. Emmis received gross proceeds from the sale of \$8.7 million, incurred approximately \$0.2 million in transaction expenses and tax obligations, and used the remaining \$8.5 million to repay term loans under the Company's Credit Agreement.

In recent years, the Company has recorded significant impairment charges, mostly attributable to our FCC licenses. These impairment charges have had no impact on our liquidity or compliance with debt covenants.

Operating Activities

Cash used in operating activities was \$1.1 million and \$7.2 million for the six-month periods ended August 31, 2011 and 2012, respectively. The increase in cash used in operating activities is mostly due to an increase in cash paid for interest expense, including amounts paid related to exit fees associated with our substantial extended term loan repayments, coupled with other working capital needs.

Investing Activities

Cash provided by investing activities was \$4.8 million and \$90.6 million for the six-month period ended August 31, 2011 and 2012, respectively. During the six-month period ended August 31, 2012, the Company sold KXOS-FM in Los Angeles for \$85.5 million in cash and received \$10.0 million for the intellectual property of WRKS-FM in New York. Partially offsetting the proceeds of asset sales during the six-month period ended August 31, 2012 is cash used by the Company for investment purposes of \$4.0 million, \$3.5 million of which related to the Company's investment in Courseload, Inc., a company that provides online access to textbooks and other material. During the six-month period ended August 31, 2011, the Company sold its Flint Peak, California tower for \$5.8 million. The proceeds related to the Flint Peak tower sale and the KXOS-FM sale are classified as cash provided by discontinued operations in the accompanying condensed consolidated statements of cash flows.

We expect capital expenditures related to continuing operations to be approximately \$4.9 million in the current fiscal year, compared to \$5.7 million in fiscal 2012. We expect that future requirements for capital expenditures will include capital expenditures incurred during the ordinary course of business. Emmis can, at its discretion, purchase up to an additional \$2.5 million of preferred stock in Courseload, Inc. during its fiscal year ending February 28, 2013. We expect to fund future investing activities with cash generated from operating activities and borrowings under our credit facility.

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Financing Activities

Cash used in financing activities was \$0.6 million and \$79.3 million for the six-month periods ended August 31, 2011 and 2012, respectively. Cash used in financing activities in the six-month period ended August 31, 2012 primarily relates to the net debt repayments of \$73.8 million, \$3.5 million of debt related costs incurred in connection with the issuance of the 98.7FM nonrecourse debt and amendments to our debt agreement, and \$2.2 million used to pay distributions to noncontrolling interests. Cash used in financing activities in the six-month period ended August 31, 2011 primarily relates to \$2.3 million used to pay distributions to noncontrolling interests and \$0.6 million of debt related costs incurred in connection with amendments to our credit agreement debt, both of which are partially offset by \$2.3 million of net borrowings during the period.

As of August 31, 2012, Emmis had \$49.1 million of borrowings under the Credit Agreement (\$0.5 million current and \$48.6 million long-term), \$37.9 million of senior unsecured notes (entirely long-term), \$81.0 million of 98.7FM nonrecourse debt (\$3.9 million current and \$77.1 million long-term) and \$46.9 million of Preferred Stock outstanding (excluding Preferred Stock of which the Company has the right to direct the vote). Approximately \$27.3 million of borrowings under the Credit Agreement bears interest pursuant to a grid under which 7.5% to 12.25% per annum is to be paid in cash and 7.0% to 0.0% per annum are to be paid in kind, subject to a minimum yield of 12.25% per annum. The remainder of the Credit Agreement debt bears interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. The senior unsecured notes compound quarterly at a rate of 22.95% per annum and are paid in kind, except that during the continuance of any event of default the rate will be 24.95% per annum payable on demand in cash. The 98.7FM nonrecourse debt bears interest at 4.1% per annum. As of August 31, 2012, our weighted average borrowing rate under our Credit Agreement was approximately 8.8%. Including the senior unsecured notes and 98.7FM nonrecourse debt, our weighted average borrowing rate at August 31, 2012 was 9.7%.

The debt service requirements of Emmis over the next twelve-month period are expected to be \$0.5 million for mandatory repayment of term notes under our Credit Agreement, \$7.2 million of mandatory principal and interest payments of the 98.7FM nonrecourse debt and a minimum of \$2.0 million related to interest on the Extended Term Loans. The Company may, at its election, choose to pay a portion of the interest due on the Extended Term Loans in-kind. The remainder of the Credit Agreement debt bears interest at variable rates and is not included in the debt service requirements previously discussed.

At a special meeting of shareholders on September 4, 2012, the shareholders of the Company approved various proposals that changed the rights of holders of Preferred Stock. Included in the proposals approved were the cancellation of all undeclared dividends with respect to the Preferred Stock that were accumulated but undeclared. Additionally, the Preferred Stock was changed from cumulative to non-cumulative and the rights of the holders of Preferred Stock were changed such that dividends or distributions on the Preferred Stock will not accumulate unless declared by the Board of Directors and subsequently not paid. As the Board of Directors has not declared a dividend or distribution, as of the filing of this report no amounts of preferred dividends are in arrears. See Notes 2 and 13 for more discussion of the Preferred Stock.

As of October 5, 2012, we had \$10.0 million available for additional borrowing under our credit facility. Our credit facility revolver matures on November 2, 2012. While our revolver is expected to expire November 2, 2012, we believe we will be able to meet our liquidity needs through the end of our fiscal year solely through cash provided by operations. Availability under the credit facility depends upon our continued compliance with certain operating covenants and financial ratios. Emmis was in compliance with these covenants as of August 31, 2012. As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, Emmis Operating Company's Credit Agreement, as amended, substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so.

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Intangibles

Approximately 61% of our total assets consisted of intangible assets, such as FCC broadcast licenses, foreign broadcasting licenses, and goodwill, the value of which depends significantly upon the operational results of our businesses. In the case of our U.S. radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future. Our foreign broadcasting licenses expire during periods ranging from February 2021 to February 2026. While all of our international broadcasting licenses were recently extended, we will need to submit extension applications upon their expiration to continue our broadcast operations in these countries. While we expect to actively seek renewal of our foreign licenses, both of the countries in which we operate do not have the regulatory framework or history that we have with respect to license renewals in the United States. This makes the risk of non-renewal (or of renewal on less favorable terms) of foreign licenses greater than for United States licenses.

Regulatory, Legal and Other Matters

Emmis is a party to various legal proceedings arising in the ordinary course of business. In the opinion of management of the company, however, there are no legal proceedings pending against the company that we believe are likely to have a material adverse effect on the company.

Emmis and certain of its officers and directors are named as defendants in a lawsuit filed by certain holders of Preferred Stock (the "Lock-Up Group") April 16, 2012, in the United States District Court for the Southern District of Indiana entitled *Corre Opportunities Fund, LP, et al. v. Emmis Communications Corporation, et al.* The plaintiffs allege that Emmis and the other defendants violated various provisions of the federal securities laws and breached fiduciary duties in connection with Emmis' entry into total return swap agreements and voting agreements with certain holders of Emmis Preferred Stock, and in issuing shares of Preferred Stock to Emmis' 2012 Retention Plan and Trust (the "Trust") and entering into a voting agreement with the trustee of the Trust. The plaintiffs also allege that Emmis violated certain provisions of Indiana corporate law by directing the voting of the shares of Preferred Stock subject to the total return swap agreements (the "Swap Shares") and the shares of Preferred Stock held by the Trust (the "Trust Shares") in favor of certain amendments to Emmis' Articles of Incorporation. The plaintiffs had been seeking injunctive relief (see below) and still seek declaratory relief.

Emmis filed an answer denying the material allegations of the complaint, and has filed a counterclaim seeking a declaratory judgment that Emmis may legally direct the voting of the Swap Shares and the Trust Shares in favor of the proposed amendments. Emmis is defending this lawsuit vigorously.

Although the date of any ruling by the U.S. District Court in the federal litigation (including the Lock-Up Group's claims and Emmis counterclaim for declaratory judgment) cannot be predicted with certainty, the U.S. District Court ruled on the Lock-Up Group's claim for injunctive relief on August 31, 2012. In that ruling, the U.S. District Court denied the preliminary injunction on the grounds that plaintiffs were unlikely to succeed on the merits of the case, and that there was an adequate remedy at law.

Certain individuals and groups have challenged applications for renewal of the FCC licenses of certain of the Company's stations. The challenges to the license renewal applications are currently pending before the FCC. Emmis does not expect the challenges to result in the denial of any license renewals.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide this information.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (Disclosure Controls). This evaluation (the Controls Evaluation) was performed under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Based upon the Controls Evaluation, our CEO and CFO concluded that as of August 31, 2012 our Disclosure Controls are effective to provide reasonable assurance that information relating to Emmis Communications Corporation and Subsidiaries that is required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the period covered by this quarterly report, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

It should be noted that any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of various legal proceedings pending against the Company.

Item 6. Exhibits

(a) Exhibits.

The following exhibits are filed or incorporated by reference as a part of this report:

- 3.1 Second Amended and Restated Articles of Incorporation of Emmis Communications Corporation, as amended and effective September 4, 2012.*
- 3.2 Second Amended and Restated Bylaws of Emmis Communications Corporation, as amended.*
- 10.1 Second Amendment to Put and Call Agreement, between KMVN, LLC, KMVN License, LLC, Grupo Radio Centro LA, LLC., 93.9 Holdings, Inc. and 93.9 License, LLC incorporated by reference from Exhibit 10.1 to the Company s Form 8-K filed July 20, 2012.

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| 10.2 | Third Amendment and Consent to Note Purchase Agreement, dated August 3, 2012, by and between Zell Credit Opportunities Master Fund, L.P. and Emmis Communications Corporation.* |
| 10.3 | Waiver and Amendment in connection with the Restated Revolving Credit and Term Loan Agreement, dated August 3, 2012 by and among Emmis Communications Corporation, Emmis Operating Company, the lenders party thereto and Bank of America, N.A., as administrative agent for itself and other lenders thereto.* |
| 10.4 | Third Amendment to Put and Call Agreement, between KMVN, LLC, KMVN License, LLC, Grupo Radio Centro LA, LLC., 93.9 Holdings, Inc. and 93.9 License, LLC.* |
| 10.5 | Seventh Amendment to Amended and Restated Revolving Credit and Term Loan Agreement, dated August 30, 2012 by and among Emmis Communications Corporation, Emmis Operating Company, the lenders party thereto and Bank of America, N.A., as administrative agent for itself and other lenders thereto, incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed August 30, 2012. |
| 10.6 | Change in Control Severance Agreement, dated as of July 10, 2012, by and between Emmis Operating Company and Gregory T. Loewen incorporated by reference from exhibit 10.17 to the Company's Form 10-Q filed July 12, 2012.++ |
| 10.7 | Change in Control Severance Agreement, dated as of July 10, 2012, by and between Emmis Operating Company and Jeffrey H. Smulyan incorporated by reference from exhibit 10.18 to the Company's Form 10-Q filed July 12, 2012.++ |
| 31.1 | Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act.* |
| 31.2 | Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act.* |
| 32.1 | Section 1350 Certification of Principal Executive Officer of Emmis Communications Corporation.* |
| 32.2 | Section 1350 Certification of Principal Financial Officer of Emmis Communications Corporation.* |
| 101.INS | XBRL Instance Document** |
| 101.SCH | XBRL Taxonomy Extension Schema Document** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document** |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document** |

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| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document** |

++ Management contract or compensatory plan or arrangement

* Filed with this report

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMMIS COMMUNICATIONS CORPORATION

Date: October 11, 2012

By: /s/ PATRICK M. WALSH
Patrick M. Walsh
Executive Vice President, Chief Financial Officer and Chief
Operating Officer

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