EMMIS COMMUNICATIONS CORP
Form 10-Q
July 07, 2016
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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 May 31, 2016

EMMIS COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

INDIANA
(State of incorporation or organization)
0-23264
(Commission file number)
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 ý 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 ý 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 o | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company ý |

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

The number of shares outstanding of each of Emmis Communications Corporation’s classes of common stock, as of July 1, 2016, was:

| | |
|---|---|
| 44,142,662 | Shares of Class A Common Stock, $.01 Par Value |
| 4,569,464 | Shares of Class B Common Stock, $.01 Par Value |
| — | Shares of Class C Common Stock, $.01 Par Value |

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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 May 31, | |
|---|---|---|
| | 2015 | 2016 |
| NET REVENUES | $58,453 | $56,002 |
| OPERATING EXPENSES: | | |
| Station operating expenses excluding depreciation and amortization expense of $1,132 and $1,110, respectively | 45,543 | 42,989 |
| Corporate expenses excluding depreciation and amortization expense of $318 and $222, respectively | 3,819 | 3,044 |
| Depreciation and amortization | 1,450 | 1,332 |
| Total operating expenses | 50,812 | 47,365 |
| OPERATING INCOME | 7,641 | 8,637 |
| OTHER EXPENSE: | | |
| Interest expense | (4,546) | (4,690) |
| Other income, net | 10 | 43 |
| Total other expense | (4,536) | (4,647) |
| INCOME BEFORE INCOME TAXES | 3,105 | 3,990 |
| PROVISION FOR INCOME TAXES | 947 | 675 |
| CONSOLIDATED NET INCOME | 2,158 | 3,315 |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 633 | 629 |
| NET INCOME ATTRIBUTABLE TO THE COMPANY | 1,525 | 2,686 |
| | | |
| NET INCOME PER SHARE - BASIC | $0.04 | $0.06 |
| NET INCOME PER SHARE - DILUTED | $0.03 | $0.06 |
| WEIGHTED AVERAGE SHARES OUTSTANDING: | | |
| Basic | 43,217 | 47,070 |
| Diluted | 47,373 | 47,295 |

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

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

| | Three Months Ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| CONSOLIDATED NET INCOME | $2,158 | $3,315 |
| LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 633 | 629 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS | $1,525 | $2,686 |

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

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

| | February 29, 2016 | May 31, 2016 (Unaudited) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 4,456 | $ 4,284 |
| Restricted cash | 1,464 | 1,747 |
| Accounts receivable, net | 34,906 | 36,962 |
| Prepaid expenses | 7,413 | 9,309 |
| Other current assets | 3,452 | 2,129 |
| Total current assets | 51,691 | 54,431 |
| PROPERTY AND EQUIPMENT, NET | 33,843 | 33,136 |
| INTANGIBLE ASSETS (NOTE 3): | | |
| Indefinite-lived intangibles | 205,129 | 205,129 |
| Goodwill | 14,697 | 14,697 |
| Other intangibles, net | 3,299 | 3,074 |
| Total intangible assets | 223,125 | 222,900 |
| OTHER ASSETS, NET | 7,947 | 8,182 |
| Total assets | $ 316,606 | $ 318,649 |

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

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands, except share data)

| | February 29, 2016 | May 31, 2016 (Unaudited) |
|---|---|---|
| LIABILITIES AND DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 8,127 | $ 7,846 |
| Current maturities of long-term debt (Note 4) | 17,573 | 14,832 |
| Accrued salaries and commissions | 8,375 | 6,123 |
| Deferred revenue | 11,435 | 12,912 |
| Other current liabilities | 5,775 | 5,679 |
| Total current liabilities | 51,285 | 47,392 |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES (NOTE 4) | 228,027 | 230,891 |
| OTHER NONCURRENT LIABILITIES | 7,728 | 7,367 |
| DEFERRED INCOME TAXES | 43,715 | 44,349 |
| Total liabilities | 330,755 | 329,999 |
| COMMITMENTS AND CONTINGENCIES | | |
| DEFICIT: | | |
| Class A common stock, $.01 par value; authorized 170,000,000 shares; issued and outstanding 41,609,601 shares at February 29, 2016 and 44,142,662 shares at May 31, 2016 | 416 | 441 |
| Class B common stock, $.01 par value; authorized 30,000,000 shares; issued and outstanding 4,569,464 shares at February 29, 2016 and May 31, 2016 | 46 | 46 |
| Series A non-cumulative convertible preferred stock, $.01 par value; $50.00 liquidation preference per share, aggregate liquidation preference and redemption amount of $43,316 and $0 at February 29, 2016 and May 31, 2016, respectively; authorized 2,875,000 shares; issued and outstanding 866,319 shares at February 29, 2016; no shares issued and outstanding at May 31, 2016 | 9 | — |
| Additional paid-in capital | 589,483 | 590,138 |
| Accumulated deficit | (642,500) | (639,814) |
| Total shareholders’ deficit | (52,546) | (49,189) |
| NONCONTROLLING INTERESTS | 38,397 | 37,839 |
| Total deficit | (14,149) | (11,350) |
| Total liabilities and deficit | $ 316,606 | $ 318,649 |

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

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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 | | Series A Preferred Stock | | Additional Paid-in Capital | Accumulated Deficit | Noncontrolling Interests | Total Deficit |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balance, February 29, 2016 | 41,609,601 | $ 416 | 4,569,464 | $ 46 | 866,319 | $ 9 | $ 589,483 | $ (642,500 ) | $ 38,397 | $ (14,149 ) |
| Net income | | | | | | | | 2,686 | 629 | 3,315 |
| Issuance of common stock to employees and officers | 107,369 | 1 | | | | | 655 | | | 656 |
| Distributions to noncontrolling interests | | | | | | | | | (1,187 ) | (1,187 ) |
| Conversion of Series A Preferred Stock to Class A Common Stock | 2,425,692 | 24 | | | (866,319 ) | (9 ) | | | | 15 |
| Balance, May 31, 2016 | 44,142,662 | $ 441 | 4,569,464 | $ 46 | — | $ — | $ 590,138 | $ (639,814 ) | $ 37,839 | $ (11,350 ) |

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

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

| | Three Months Ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Consolidated net income | $2,158 | $3,315 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities - | | |
| Depreciation and amortization | 1,450 | 1,332 |
| Amortization of debt discount | 395 | 427 |
| Noncash accretion of debt | 186 | 186 |
| Provision for (recovery of) bad debts | 60 | (36) |
| Provision for deferred income taxes | 841 | 634 |
| Noncash compensation | 2,104 | 856 |
| Other | — | 2 |
| Changes in assets and liabilities - | | |
| Restricted cash | 454 | (283) |
| Accounts receivable | (1,924) | (2,020) |
| Prepaid expenses and other current assets | (228) | (573) |
| Other assets | (202) | (258) |
| Accounts payable and accrued liabilities | (3,259) | (2,533) |
| Deferred revenue | 1,171 | 1,477 |
| Income taxes | (97) | (124) |
| Other liabilities | (1,420) | (333) |
| Net cash provided by operating activities | 1,689 | 2,069 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (421) | (402) |
| Other | 23 | 23 |
| Net cash used in investing activities | $(398) | $(379) |

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

| | Three Months Ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term debt | $(1,656) | $(7,490) |
| Proceeds from long-term debt | 3,000 | 7,000 |
| Debt-related costs | (1,134) | — |
| Distributions to noncontrolling interests | (1,636) | (1,187) |
| Proceeds from the exercise of stock options | 54 | — |
| Settlement of tax withholding obligations on stock issued to employees | (318) | (185) |
| Net cash used in financing activities | (1,690) | (1,862) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (399) | (172) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 3,669 | 4,456 |
| End of period | $3,270 | $4,284 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid for interest | $4,321 | $3,866 |
| Cash paid for income taxes, net | 216 | 116 |
| Noncash financing transactions- | | |
| Stock issued to employees and directors | 1,432 | 840 |

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

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS UNLESS INDICATED OTHERWISE, EXCEPT SHARE DATA)
May 31, 2016
(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, 2016. 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, except as otherwise noted) necessary to present fairly the consolidated financial position of Emmis at May 31, 2016, and the results of its operations and cash flows for the three-month periods ended May 31, 2015 and 2016.

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016 that have had a material impact on our condensed consolidated financial statements and related notes.

Basic and Diluted Net Income Per Common Share

Basic net income per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income 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 May 31, 2015 and 2016 consisted of stock options and restricted stock awards. Potentially dilutive securities at May 31, 2015 also included Series A non-cumulative convertible preferred stock (the "Preferred Stock"). All shares of Preferred Stock were converted into Class A common stock during the three months ended May 31, 2016. See Note 10 for more discussion of the conversion of Preferred Stock. The following table sets forth the calculation of basic and diluted net income per share:

| | For the three months ended | | | | | |
|---|---|---|---|---|---|---|
| | May 31, 2015 | | | May 31, 2016 | | |
| | Net Income | Shares | Net Income Per Share | Net Income | Shares | Net Income Per Share |
| | (amounts in 000's, except per share data) | | | | | |
| Basic net income per common share: | | | | | | |
| Net income available to common shareholders | $1,525 | 43,217 | $ 0.04 | $2,686 | 47,070 | $ 0.06 |
| Impact of equity awards | — | 1,890 | — | — | 225 | — |
| Impact of conversion of preferred stock into common stock | — | 2,266 | — | — | — | — |
| Diluted net income per common share: | | | | | | |
| Net income available to common shareholders | $1,525 | 47,373 | $ 0.03 | $2,686 | 47,295 | $ 0.06 |

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Shares excluded from the calculation as the effect of their conversion into shares of our common stock would be antidilutive were as follows:

| | For the three months ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| | (shares in 000’s ) | |
| Equity awards | 3,592 | 8,208 |
| Antidilutive common share equivalents | 3,592 | 8,208 |

Local Programming and Marketing Agreement Fees

The Company from time to time enters into local programming and marketing agreements (“LMAs”) in connection with acquisitions or dispositions of radio stations, often pending regulatory approval of transfer of the Federal Communications Commission ("FCC") licenses. Under the terms of these agreements, the acquiring company makes specified periodic payments to the holder of the FCC license in exchange for the right to program and sell advertising for a specified portion of the station’s inventory of broadcast time. The acquiring company records revenues and expenses associated with the portion of the station’s inventory of broadcast time it manages. Nevertheless, as the holder of the FCC license, the owner-operator 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. Emmis retains ownership and control of the station, including the related FCC license during the term of the LMA and is scheduled to receive an annual fee until the LMA’s termination. LMA fee revenue is recorded on a straight-line basis over the term of the LMA as a component of net revenues in our accompanying condensed consolidated statements of operations.

The following table summarizes certain operating results of 98.7FM for all periods presented. Net revenues for 98.7FM are solely related to LMA fees. 98.7FM is a part of our radio segment.

| | For the three months ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| | (amounts in 000's) | |
| Net revenues | $2,583 | $2,583 |
| Station operating expenses, excluding depreciation and amortization expense | 257 | 251 |
| Interest expense | 780 | 728 |

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Assets and liabilities of 98.7FM as of February 29, 2016 and May 31, 2016 were as follows:

| | As of February 29, 2016 | As of May 31, 2016 |
|---|---|---|
| | (amounts in 000's) | |
| Current assets: | | |
| Restricted cash | $ 1,464 | $ 1,022 |
| Prepaid expenses | 545 | 530 |
| Total current assets | 2,009 | 1,552 |
| Noncurrent assets: | | |
| Property and equipment, net | 253 | 244 |
| Indefinite lived intangibles | 49,297 | 49,297 |
| Deposits and other | 5,460 | 5,678 |
| Total noncurrent assets | 55,010 | 55,219 |
| Total assets | $ 57,019 | $ 56,771 |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 14 | $ 17 |
| Current maturities of long-term debt | 5,453 | 5,582 |
| Deferred revenue | 779 | 807 |
| Other current liabilities | 223 | 219 |
| Total current liabilities | 6,469 | 6,625 |
| Noncurrent liabilities: | | |
| Long-term debt, net of current portion and unamortized debt discount | 57,728 | 56,359 |
| Total noncurrent liabilities | 57,728 | 56,359 |
| Total liabilities | $ 64,197 | $ 62,984 |

Restricted Cash

The Company's restricted cash, included in current assets in the accompanying condensed consolidated balance sheets, totaled $1.5 million and $1.7 million as of February 29, 2016 and May 31, 2016, respectively.

The terms of our 98.7FM non-recourse notes and related agreements discussed in Note 4 restrict a portion of our cash on deposit for specific operating and financing purposes. Restricted cash related to the 98.7FM non-recourse notes and related agreements totaled $1.5 million and $1.0 million as of February 29, 2016 and May 31, 2016, respectively.

In connection with the Company's agreement with Sprint/United Management Company (“Sprint”), the Company collects cash from other participating companies in the radio industry and remits cash collected to Sprint. The entirety of cash collected but not yet remitted to Sprint classified as restricted cash as of May 31, 2016 was $0.7 million. The Company had remitted to Sprint all collected cash related to its agreement as of February 29, 2016.

Noncontrolling Interests

The Company follows Accounting Standards Codification paragraph 810-10-65-1 to report the noncontrolling interests related to our Austin radio partnership and Digonex. We have a 50.1% controlling interest in our Austin radio partnership. We do not own any of the common equity of Digonex, but we consolidate the entity because we control its board of directors via rights granted in convertible preferred stock and convertible debt that we own.

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Noncontrolling interests represents the noncontrolling interest holders' proportionate share of the equity of the Austin radio partnership and Digonex. Noncontrolling interests are adjusted for the noncontrolling interest holders' proportionate share of the earnings or losses of the applicable entity. The noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. Below is a summary of the noncontrolling interest activity for the three months ended May 31, 2015 and 2016:

| | Austin radio partnership | Digonex | Total noncontrolling interests |
|---|---|---|---|
| Balance, February 28, 2015 | $ 47,883 | $ (1,222 ) | $ 46,661 |
| Net income (loss) | 1,614 | (981 ) | 633 |
| Distributions to noncontrolling interests | (1,636 ) | — | (1,636 ) |
| Balance, May 31, 2015 | $ 47,861 | $ (2,203 ) | $ 45,658 |
| | | | |
| Balance, February 29, 2016 | $ 47,556 | $ (9,159 ) | $ 38,397 |
| Net income (loss) | 1,527 | (898 ) | 629 |
| Distributions to noncontrolling interests | (1,187 ) | — | (1,187 ) |
| Balance, May 31, 2016 | $ 47,896 | $ (10,057 ) | $ 37,839 |

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. The FASB deferred implementation of this guidance by one year with the issuance of Accounting Standards Update 2015-14. As such, this guidance will be effective for the Company in the first quarter of its fiscal year ending February 28, 2019. The Company is currently evaluating the method of adoption and impact, if any, the adoption of this guidance will have on its financial position and results of operations.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements - Going Concern - Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This update provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the fiscal year ending February 28, 2017, and for annual periods and interim periods thereafter. Early adoption is permitted. The adoption of this update is not expected to have an impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance as to when a company using a cloud computing service that includes a software license should capitalize and depreciate the software license. This guidance was effective for the Company as of March 1, 2016. The adoption of this guidance did not have any effect on the Company's financial position, results of operations, or cash flows.

In September 2015, the FASB issued Accounting Standards Update 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments. This update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in the provisional amount as if the accounting had been completed at the acquisition date. This guidance was effective for the Company as of March 1, 2016. The adoption of this guidance did not have any effect on the Company's financial position, results of operations, or cash flows.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842). This update requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance will be effective for the Company as of March 1, 2019. A modified retrospective transition method is required. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting (ASU 2016-09) to simplify the accounting for share-based payment transactions, including the income tax consequences, and standardize certain classifications on the statement of cash flows. As permitted by ASU 2016-09, the Company chose to early adopt the provisions of this update as of March 1, 2016. The adoption of this guidance did not have any effect on the Company's financial position, results of operations, or cash flows.

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Note 2. Share Based Payments

The amounts recorded as share based compensation expense consist of stock option grants, restricted stock grants, and common stock issued to employees and directors in lieu of cash payments.

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 3 years (one-third each year for 3 years), or cliff vest at the end of 3 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. 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 three months ended May 31, 2015 and 2016:

| | Three Months Ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| Risk-Free Interest Rate: | 1.3% - 1.4% | 1.2% |
| Expected Dividend Yield: | 0% | 0% |
| Expected Life (Years): | 4.3 | 4.3 |
| Expected Volatility: | 63.6% - 64.6% | 58.6% - 59.6% |

The following table presents a summary of the Company's stock options outstanding at May 31, 2016, and stock option activity during the three months ended May 31, 2016 ("Price" reflects the weighted average exercise price per share; "Aggregate Intrinsic Value" dollars in thousands):

| | Options | Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, beginning of period | 7,793,702 | $1.59 | | |
| Granted | 582,500 | 0.54 | | |
| Expired | 73,754 | 11.17 | | |
| Outstanding, end of period | 8,302,448 | 1.43 | 6.8 | $ 98 |
| Exercisable, end of period | 4,846,694 | 1.41 | 5.3 | $ 90 |

Cash received from option exercises for the three months ended May 31, 2015 was $0.1 million. The Company did not record an income tax benefit relating to the options exercised during the three months ended May 31, 2015. No options were exercised during the three months ended May 31, 2016.

The weighted average per share grant date fair value of options granted during the three months ended May 31, 2015 and 2016, was $1.05 and $0.26, respectively.

A summary of the Company's nonvested options at May 31, 2016, and changes during the three months ended May 31, 2016, is presented below:

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| | Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested, beginning of period | 3,323,253 | $ 0.93 |
| Granted | 582,500 | 0.26 |
| Vested | 449,999 | 1.25 |
| Nonvested, end of period | 3,455,754 | 0.77 |

There were 1.9 million shares available for future grants under the Company's various equity plans (0.6 million shares under the 2015 Equity Compensation Plan and 1.3 million shares under other plans) at May 31, 2016, not including shares that may become available for future grants upon forfeiture, lapse or surrender for taxes. Additionally, the board of directors approved the 2016 Equity Compensation Plan on January 29, 2016. Under the 2016 Equity Compensation Plan, awards equivalent to 6.0 million shares of common stock may be granted. The 2016 Equity Compensation Plan won't become effective until it is approved by Emmis' shareholders at the annual meeting in July 2016. However, Emmis' Chairman and Chief Executive Officer, Jeffrey H. Smulyan, controls more than 50% of the vote on this matter and has informed the board of directors that he intends to vote in favor of approving the 2016 Plan. The vesting dates of outstanding options at May 31, 2016 range from July 2016 to March 2019, and expiration dates range from March 2017 to April 2026.

Restricted Stock Awards

The Company grants restricted stock awards to directors annually, and periodically grants restricted stock to employees in connection with employment agreements. 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 3-year term or (ii) the third anniversary of the date of grant. Restricted stock award grants are granted out of the Company's 2015 Equity Compensation Plan. The Company may also award, out of the Company's 2015 Equity Compensation Plan, stock to settle certain bonuses and other compensation that otherwise would be paid in cash. Any restrictions on these shares may be immediately lapsed on the grant date.

The following table presents a summary of the Company's restricted stock grants outstanding at May 31, 2016, and restricted stock activity during the three months ended May 31, 2016 ("Price" reflects the weighted average share price at the date of grant):

| | Awards | Price |
|---|---|---|
| Grants outstanding, beginning of period | 852,028 | $1.78 |
| Granted | 456,367 | 0.52 |
| Vested (restriction lapsed) | 718,867 | 1.05 |
| Grants outstanding, end of period | 589,528 | 1.69 |

The total grant date fair value of shares vested during the three months ended May 31, 2015 and 2016, was $1.0 million and $0.8 million, respectively.

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Recognized Non-Cash Compensation Expense

The following table summarizes stock-based compensation expense recognized by the Company during the three months ended May 31, 2015 and 2016. The company did not recognize any tax benefits related to stock-based compensation during the periods presented below.

| | Three Months Ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| Station operating expenses | $724 | $337 |
| Corporate expenses | 1,380 | 519 |
| Stock-based compensation expense included in operating expenses | 2,104 | 856 |

As of May 31, 2016, there was $1.9 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 1.6 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 $205.1 million as of February 29, 2016 and May 31, 2016. 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 with another broadcaster. 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, the Company will perform an interim impairment test. During the quarter ended May 31, 2016, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. 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 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 May 31, 2016, 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.

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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.

The following table summarizes the Company's goodwill by segment as of February 29, 2016 and May 31, 2016.

| | As of February 29, 2016 | As of May 31, 2016 |
|---|---|---|
| Radio | $ 4,603 | $4,603 |
| Publishing | 8,036 | 8,036 |
| Corporate & Emerging Technologies | 2,058 | 2,058 |
| Total Goodwill | $ 14,697 | $14,697 |

Definite-lived intangibles

The Company’s definite-lived intangible assets consist of patents, customer lists, trademarks and a syndicated programming contract, 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, 2016 and May 31, 2016:

| | | As of February 29, 2016 (in 000's) | | | As of May 31, 2016 | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Remaining Useful Life (in years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademarks | 6.7 | $1,240 | $ 727 | $ 513 | $1,240 | $ 762 | $ 478 |
| Patents | 5.3 | 1,815 | 1,141 | 674 | 1,815 | 1,172 | 643 |
| Customer lists | 1.2 | 1,015 | 543 | 472 | 1,015 | 629 | 386 |
| Programming agreement | 5.3 | 2,154 | 514 | 1,640 | 2,154 | 587 | 1,567 |
| TOTAL | | $6,224 | $ 2,925 | $ 3,299 | $6,224 | $ 3,150 | $ 3,074 |

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Total amortization expense from definite-lived intangibles for the three-month periods ended May 31, 2015 and 2016 was $0.4 million and $0.2 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), | Expected Amortization Expense (in 000's) |
|---|---|
| 2017 | 896 |
| 2018 | 636 |
| 2019 | 457 |
| 2020 | 457 |
| 2021 | 457 |

Note 4. Long-term Debt

Long-term debt was comprised of the following at February 29, 2016 and May 31, 2016:

| | February 29, 2016 | May 31, 2016 |
|---|---|---|
| 2014 Credit Agreement debt : | | |
| Revolver | $ 3,000 | $ 9,000 |
| Term Loan | 181,762 | 176,580 |
| Total 2014 Credit Agreement debt | 184,762 | 185,580 |
| | | |
| 98.7FM non-recourse debt | 65,411 | 64,103 |
| Digonex non-recourse debt [1] | 4,714 | 4,900 |
| Less: Current maturities | (17,573) | (14,832) |
| Less: Unamortized original issue discount | (9,287) | (8,860) |
| Total long-term debt | $ 228,027 | $ 230,891 |

[1] The face value of Digonex non-recourse debt is $6.2 million

2014 Credit Agreement

On June 10, 2014, Emmis entered into the 2014 Credit Agreement, by and among the Company, EOC, as borrower (the “Borrower”), certain other subsidiaries of the Company, as guarantors (the “Subsidiary Guarantors”), the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and Fifth Third Bank, as syndication agent.

The 2014 Credit Agreement includes a senior secured term loan facility (the “Term Loan”) of $185.0 million and a senior secured revolving credit facility of $20.0 million, and contains provisions for an uncommitted increase of up to $20.0 million principal amount (plus additional amounts so long as a pro forma total net senior secured leverage ratio condition is met) of the revolving credit facility and/or the Term Loan subject to the satisfaction of certain conditions. The revolving credit facility includes a sub-facility for the issuance of up to $5.0 million of letters of credit. Pursuant to the 2014 Credit Agreement, the Borrower borrowed $185.0 million of the Term Loan on June 10, 2014; $109.0 million was disbursed to the Borrower (the “Initial Proceeds”) and the remaining $76.0 million was funded into escrow (the “Subsequent Acquisition Proceeds”).

The Initial Proceeds, coupled with $13.0 million of revolving credit facility borrowings, were used by the Borrower on June 10, 2014 to repay all amounts outstanding under the 2012 Credit Agreement, to make a $55.0 million initial payment associated with our acquisition of WBLS-FM and WLIB-AM, and to pay fees and expenses. The Subsequent Acquisition Proceeds were used to make the final $76.0 million payment related to the acquisition of WBLS-FM and WLIB-AM on February 13, 2015.

The Term Loan is due not later than June 10, 2021 and initially amortized in an amount equal to 1% per annum (subsequently amended, see below) of the original principal amount of the Term Loan, payable in quarterly installments commencing April 1, 2015, with the balance payable on the maturity date. The revolving credit facility expires not later than June 10, 2019. An unused commitment fee of 50 basis points per annum will be payable quarterly on the average unused

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amount of the revolving credit facility. Prior to the amendments to the 2014 Credit Agreement discussed below, the Term Loan and amounts borrowed under the revolving credit facility bore interest, at the Borrower's option, at either (i) the Alternate Base Rate (as defined in the 2014 Credit Agreement) (but not less than 2.00%) plus 3.75% or (ii) the Adjusted LIBO Rate (as defined in the 2014 Credit Agreement) (but not less than 1.00%) plus 4.75%.

The 2014 Credit Agreement is carried on our condensed consolidated balance sheets net of an original issue discount. The original issue discount, which was $9.3 million and $8.9 million as of February 29, 2016 and May 31, 2016, respectively, is being amortized as additional interest expense over the life of the 2014 Credit Agreement.

The obligations under the 2014 Credit Agreement are secured by a perfected first priority security interest in substantially all of the assets of the Company, the Borrower and the Subsidiary Guarantors.

On November 7, 2014, Emmis entered into the First Amendment to the 2014 Credit Agreement. The First Amendment (i) increased the maximum Total Leverage Ratio to 6.00:1.00 for the period February 28, 2015 through February 29, 2016, (ii) adjusted the definition of Consolidated EBITDA to exclude during the term of the 2014 Credit Agreement up to $5 million in severance and/or contract termination expenses and up to $2.5 million in losses attributable to the reformatting of the Company's radio stations, (iii) extended the requirement for the Borrower to pay a 1.00% fee on certain prepayments of the Term Loan to November 7, 2015, (iv) increased the Applicable Margin by 0.25% for at least six months from the date of the First Amendment and until the Total Leverage Ratio is less than 5.00:1.00, and (v) made certain technical adjustments to the definition of Consolidated Excess Cash Flow and to address the Foreign Account Tax Compliance Act. Emmis paid a total of approximately $1.0 million of transaction fees to the Lenders that consented to the First Amendment, which were recorded as original issue discount and are being amortized over the remaining life of the 2014 Credit Agreement.

On April 30, 2015, Emmis entered into the Second Amendment to the 2014 Credit Agreement. The Second Amendment (i) increases the maximum Total Leverage Ratio to (A) 6.75:1.00 during the period from May 31, 2015 through February 29, 2016, (B) 6.50:1.00 for the quarter ended May 31, 2016, (C) 6.25:1.00 for the quarter ended August 31, 2016, (D) 6.00:1.00 for the quarter ended November 30, 2016, and (E) 5.75:1.00 for the quarter ended February 28, 2017, after which it reverts to the original ratio of 4.00:1.00 for the quarters ended May 31, 2017 and thereafter, (ii) requires Emmis to pay a 2.00% fee on certain prepayments of the Term Loan prior to the first anniversary of the Second Amendment and requires Emmis to pay a 1.00% fee on certain prepayments of the Term Loan from the first anniversary of the Second Amendment until the second anniversary of the Second Amendment, (iii) increases the Applicable Margin throughout the remainder of the term of the Credit Agreement to 5.00% for ABR Loans (as defined in the Credit Agreement) and 6.00% for Eurodollar Loans (as defined in the 2014 Credit Agreement), and (iv) increases the amortization to 0.50% per calendar quarter through January 1, 2016 and to 1.25% per calendar quarter thereafter commencing April 1, 2016. Emmis paid a total of approximately $1.1 million of transaction fees to the Lenders that consented to the Second Amendment, which were recorded as original issue discount and are being amortized over the remaining life of the 2014 Credit Agreement.

We were in compliance with all financial and non-financial covenants as of May 31, 2016. Our Total Leverage Ratio and Interest Coverage Ratio (each as defined in the 2014 Credit Agreement) requirements and actual amounts as of May 31, 2016 were as follows:

| | As of May 31, 2016 | |
|---|---|---|
| | Covenant Requirement | Actual Results |
| Maximum Total Leverage Ratio | 6.50 : 1.00 | 5.43 : 1.00 |
| Minimum Interest Coverage Ratio | 2.00 : 1.00 | 2.46 : 1.00 |

98.7FM Non-recourse Debt

On May 30, 2012, the Company, through wholly-owned, newly-created subsidiaries, issued $82.2 million of non-recourse notes. Teachers Insurance and Annuity Association of America, through a participation agreement with Wells Fargo Bank Northwest, National Association, 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 and its 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%.

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Digonex Non-recourse Debt

Digonex non-recourse notes payable consist of notes payable issued by Digonex, which were recorded at fair value on June 16, 2014, the date that Emmis acquired a controlling interest in Digonex. The notes payable, some of which are secured by the assets of Digonex, are non-recourse to the rest of the Company and its subsidiaries. The notes payable mature on December 31, 2017 and accrue interest at 5.0% per annum. Interest is due at maturity. The face value of the notes payable is $6.2 million. The Company is accreting the difference between this face value and the original $3.6 million fair value of the notes payable recorded in the acquisition of its controlling interest of the business as interest expense over the remaining term of the notes payable.

Based on amounts outstanding at May 31, 2016, mandatory principal payments of long-term debt for the next five years and thereafter are summarized below:

| Year Ended | 2014 Credit Agreement | | | Digonex | Total |
|---|---|---|---|---|---|
| February 28 (29), | Revolver | Term Loan | 98.7FM Debt | Notes payable | Payments |
| 2017 | $— | $6,938 | $ 4,146 | $ — | $11,084 |
| 2018 | — | 9,250 | 6,039 | 6,199 | 21,488 |
| 2019 | — | 9,250 | 6,587 | — | 15,837 |
| 2020 | 9,000 | 9,250 | 7,150 | — | 25,400 |
| 2021 | — | 9,250 | 7,756 | — | 17,006 |
| Thereafter | — | 132,642 | 32,425 | — | 165,067 |
| Total | $9,000 | $176,580 | $ 64,103 | $ 6,199 | $255,882 |

Note 5. Liquidity

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2017 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 2017.

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, 2016 and May 31, 2016. 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.

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| | As of May 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | Quoted Prices in Active Markets for Identical Assets or Liabilities | Significant Other Observable Inputs | Significant Unobservable Inputs | Total |
| | (in 000's) | | | |
| Available for sale securities | $— | $— | $ 800 | $800 |
| Total assets measured at fair value on a recurring basis | $— | $— | $ 800 | $800 |

| | As of February 29, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | Quoted Prices in Active Markets for Identical Assets or Liabilities | Significant Other Observable Inputs | Significant Unobservable Inputs | Total |
| | (in 000's) | | | |
| Available for sale securities | $— | $— | $ 800 | $800 |
| Total assets measured at fair value on a recurring basis | $— | $— | $ 800 | $800 |

Available for sale securities — Emmis' available for sale securities are comprised of preferred stock of a private company that is not traded in active markets and is included in other assets, net in the accompanying condensed consolidated balance sheets. The investment is recorded at fair value, which was generally estimated using significant unobservable market parameters, resulting in a level 3 categorization. The carrying value of our preferred stock investment was determined by using implied valuations of recent rounds of financing and by other corroborating evidence, which may include the application of various valuation methodologies including option-pricing and discounted cash flow based models.

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

| | For the Three Months Ended May 31, | |
|---|---|---|
| | 2015 | 2016 |
| | Available For Sale Securities | Available For Sale Securities |
| Beginning Balance | $500 | $ 800 |

| | | |
|---|---|---|
| Purchases | — | — |
| Ending Balance | $500 | $ 800 |

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 measurement 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

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition.

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

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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: The carrying amount of these assets approximates fair value because of the short maturity of these instruments.
- 2014 Credit Agreement debt: As of May 31, 2016, the fair value and carrying value, excluding original issue discount, of the Company's 2014 Credit Agreement debt was $160.5 million and $185.6 million, respectively. The Company's estimate of fair value was based on quoted prices of this instrument and is considered a Level 2 measurement.
- Other long-term debt: The Company’s 98.7FM non-recourse debt and Digonex non-recourse debt is not actively traded and is considered a level 3 measurement. The Company believes the current carrying value of its other long-term debt approximates its fair value.

Note 7. Segment Information
The Company’s operations are aligned into three business segments: (i) Radio, (ii) Publishing and (iii) Corporate & Emerging Technologies. Emerging Technologies includes our TagStation, NextRadio and Digonex businesses. 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 Company’s segments operate exclusively in the United States.
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, 2016, and in Note 1 to these condensed consolidated financial statements, are applied consistently across segments.

| Three Months Ended May 31, 2016 | Radio | Publishing | Corporate & Emerging Technologies | Consolidated |
|---|---|---|---|---|
| Net revenues | 42,699 | 13,092 | 211 | $ 56,002 |
| Station operating expenses excluding depreciation and amortization expense | 27,275 | 13,478 | 2,236 | 42,989 |
| Corporate expenses excluding depreciation and amortization expense | — | — | 3,044 | 3,044 |
| Depreciation and amortization | 907 | 73 | 352 | 1,332 |
| Operating income (loss) | $14,517 | $ (459 ) | $ (5,421 ) | $ 8,637 |

| Three Months Ended May 31, 2015 | Radio | Publishing | Corporate & Emerging Technologies | Consolidated |
|---|---|---|---|---|
| Net revenues | 42,593 | 15,525 | 335 | $ 58,453 |
| Station operating expenses excluding depreciation and amortization expense | 28,693 | 15,209 | 1,641 | 45,543 |
| Corporate expenses excluding depreciation and amortization expense | — | — | 3,819 | 3,819 |
| Depreciation and amortization | 798 | 61 | 591 | 1,450 |
| Operating income (loss) | $13,102 | $ 255 | $ (5,716 ) | $ 7,641 |

| Total Assets | Radio | Publishing | Corporate & Emerging Technologies | Consolidated |
|---|---|---|---|---|
| As of February 29, 2016 | $271,336 | $ 22,060 | $ 23,210 | $ 316,606 |
| As of May 31, 2016 | $275,300 | $ 20,241 | $ 23,108 | $ 318,649 |

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Note 8. 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.

On July 7, 2014, individuals who had been seeking to overturn the FCC’s approval of the transfer of the broadcast licenses for WBLS-FM and WLIB-AM from entities associated with Inner City Broadcasting to YMF (the entities that subsequently sold the two stations to Emmis) filed with the U.S. Court of Appeals for the District of Columbia Circuit a Notice of Appeal of the FCC’s approval of the transfer. The U.S. Court of Appeals for the District of Columbia upheld the license transfer. Additionally, in March 2015, an individual filed a lawsuit in the Federal District Court of New York challenging the transfer of the assets of WBLS-FM and WLIB-AM from Inner City to YMF, and claimed that Emmis had exerted undue influence in securing the FCC's consent to the transfer of the FCC licenses of WBLS-FM and WLIB-AM from YMF to Emmis. Based upon the facts alleged in the cases and the extensive precedent of courts not overturning FCC approvals of transfers of broadcast licenses except in exceedingly rare circumstances, Emmis believes the appeal and the claims in the lawsuit are without merit.

Note 9. Income Taxes

Our effective income tax rate was 17% for the three-month period ended May 31, 2016. The Company recorded a valuation allowance for its net deferred tax assets generated during the period, 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 approximately $2.5 million for the year ending February 28, 2017.

Note 10. Other Significant Events

On March 17, 2016, The Nasdaq Stock Market LLC ("Nasdaq") filed with the United States Securities and Exchange Commission Form 25-NSE to formally delist the Company's Preferred Stock from the Nasdaq Global Select Market (formerly listed under the symbol "EMMSP"). The delisting occurred on March 28, 2016. Pursuant to the Company's articles of incorporation, each outstanding share of Preferred Stock was automatically converted on April 4, 2016, into the Company's Class A common stock at a ratio of 2.80 shares of Class A common stock for each share of Preferred Stock.

On both March 1, 2016 and June 7, 2016, Emmis contributed an additional $0.5 million to Digonex in the form of convertible debt. Emmis currently owns rights that are convertible into at least 78% of the common equity of Digonex.

Note 11. Subsequent Event

On December 7, 2015, the Company received a notification from the Listing Qualifications Department of Nasdaq indicating that the Company's Class A common stock was not in compliance with Markeplace Rule 5450(a)(1) (the “Minimum Bid Price Rule”) because the minimum bid price of the Company's Class A common stock on the Nasdaq Global Select Market closed below $1.00 per share for 30 consecutive business days. In accordance with Marketplace Rules 5810(c)(3)(A), the Company had 180 calendar days, or until June 6, 2016, for our Class A common stock to regain compliance with the Minimum Bid Price Rule. During the 180 day period, the Company’s Class A common stock continued to trade on the Nasdaq Global Select Market. On June 7, 2016, the Company received a written notification (the "Staff Determination")from Nasdaq stating that because the Company had not regained compliance with the $1.00 minimum bid price requirement for continued listing, the Company’s Class A common stock (listed on The Nasdaq Global Select Market under the symbol “EMMS”) would be subject to delisting unless the Company requested a hearing before a Nasdaq Hearings Panel (the "Panel") on or before June 14, 2016.

The Company requested a hearing before the Panel, which stayed any delisting action in connection with the Staff Determination and allowed the continued listing of the Company’s Class A common stock on The Nasdaq Global Select Market until the Panel renders a decision subsequent to the hearing. At the hearing, the Company intends to present a plan to regain compliance with Rule 5450(a)(1) and request that the Panel allow the Company additional time within which to regain compliance. The Company believes that it will be able to present a viable plan to regain compliance because our shareholders are scheduled to vote upon a proposed amendment to our articles of incorporation to permit a one-for-four reverse stock split at our annual meeting on July 7, 2016 and we have already received sufficient votes for the proposal’s adoption. Upon receipt of formal shareholder approval, the reverse stock split is expected to be implemented effective upon the commencement of trading on July 8, 2016. Thus, the Company expects that our Class A common stock will have been trading above $1.00 for ten consecutive trading days on July 21, 2016, the date of our Nasdaq hearing.

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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;
- competition from new or different media and technologies;
- loss of key personnel;
- increased competition in our markets and the broadcasting industry, including our competitors changing the format of a station they operate to more directly compete with a station we operate in the same market;
- 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;
- fluctuations in the market price of publicly traded and other securities;
- new or changing regulations of the Federal Communications Commission or other governmental agencies;
- changes in radio audience measurement methodologies;
- 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, 2016. 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 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. The Nielsen Company 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 preempt advertising spots paid for in cash with advertising spots paid for in trade.

The following table summarizes the sources of our revenues for the three-month periods ended May 31, 2015 and 2016. 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 related to our TagStation and Digonex businesses, network revenues and barter.

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| | Three Months Ended May 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | % of Total | | 2016 | % of Total | |
| Net revenues: | | | | | | |
| Local | $34,155 | 58.4 | % | $33,018 | 59.0 | % |
| National | 7,499 | 12.8 | % | 5,719 | 10.2 | % |
| Political | 164 | 0.3 | % | 860 | 1.5 | % |
| Publication Sales | 1,399 | 2.4 | % | 1,383 | 2.5 | % |
| Non Traditional | 4,880 | 8.3 | % | 4,114 | 7.3 | % |
| LMA Fees | 2,583 | 4.4 | % | 2,583 | 4.6 | % |
| Digital | 3,285 | 5.6 | % | 4,057 | 7.2 | % |
| Other | 4,488 | 7.8 | % | 4,268 | 7.7 | % |
| Total net revenues | $58,453 | | | $56,002 | | |

As previously mentioned, we derive approximately 70% of our net revenues from advertising sales. In the three-month period ended May 31, 2016, local sales, excluding political revenues, represented approximately 85% and 87% 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 61% and 59% of our radio division's total advertising net revenues for the three-month periods ended May 31, 2015 and 2016, respectively. The automotive industry was the largest category for our radio division for the three-month periods ended May 31, 2015 and 2016, representing approximately 13% of our radio net revenues.

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, music license fees 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 2008 economic recession, radio revenue growth remains challenged. Management believes this is principally the result of two factors: (1) new media, such as various media distributed via the Internet, telecommunication companies and cable interconnects, as well as social networks, have gained advertising share against radio and other traditional media and created a proliferation of advertising inventory and (2) the fragmentation of the radio audience and time spent listening caused by satellite radio and streaming radio has led some investors and advertisers to conclude that the effectiveness of radio advertising has diminished.

The Company and the radio industry are leading several initiatives to address these issues. The radio industry is working aggressively to increase the number of smartphones and other wireless devices that contain an enabled FM tuner. Most smartphones currently sold in the United States contain an FM tuner. However, most wireless carriers in the United States have not historically permitted the FM tuner to receive the free over-the-air local radio stations it was designed to receive. Furthermore, in many countries outside the United States, enabled FM tuners are made available to smartphone consumers; consequently, radio listening increases. Activating FM as a feature on smartphones sold in the United States has the potential to increase radio listening and improve perception of the radio industry while offering wireless 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. Emmis is at the leading edge of this initiative and has developed TagStation®, a cloud-based software platform that allows a broadcaster to manage album art, meta data and enhanced advertising on its various broadcasts, and NextRadio®, a smartphone application that marries over-the-air FM radio broadcasts with visual and interactive features, as an industry solution to enrich the user experience of listening to free over-the-air radio broadcasts on their FM-enabled smartphones.

On August 9, 2013, NextRadio LLC, a wholly-owned subsidiary of Emmis, entered into an agreement with Sprint whereby Sprint agreed to pre-load the Company's NextRadio smartphone application in a minimum of 30 million FM-enabled wireless devices on the Sprint wireless network over a three-year period. In return, NextRadio LLC agreed to serve as a conduit for the radio industry to pay Sprint $15 million per year in equal quarterly installments over the three year term and to share with Sprint certain revenue generated by the NextRadio application. NextRadio LLC collects money from the radio industry and forwards it to Sprint. During the three months ended May 31, 2015, Emmis' funding of its share of NextRadio's payment to

Sprint was $0.1 million. This amount is included in station operating expenses in the accompanying condensed consolidated statements of operations. Emmis had fully funded its share of NextRadio's payment to Sprint as of February 29, 2016. Emmis has not guaranteed NextRadio LLC's performance under this agreement and Sprint does not have recourse to any Emmis related entity other than NextRadio LLC. Additionally, the agreement does not limit the ability of NextRadio LLC to place the NextRadio application on FM-enabled devices on other wireless networks. Through May 31, 2016, the NextRadio application had not generated a material amount of revenue.

Since the inception of NextRadio LLC's agreement with Sprint, NextRadio LLC has remitted to Sprint approximately $32.0 million through May 31, 2016. NextRadio LLC is currently in arrears with Sprint, but is in discussions with radio broadcasters and other companies involved in the radio industry to fund the remaining $13.0 million due to Sprint.

On July 27, 2015, NextRadio LLC entered into an agreement with AT&T whereby AT&T agreed to include FM chip activation in its Android device specifications to wireless device manufacturers. In exchange, AT&T will receive a share of certain revenue generated by the NextRadio application. In August 2015, T-Mobile expressed its intent to include FM chip activation in its device specifications. TagStation LLC (the parent entity of NextRadio LLC and owner of the TagStation and NextRadio applications) and T-Mobile are working together to formalize this business relationship. Both AT&T and T-Mobile currently support NextRadio in the Samsung Galaxy S7 and S7 Edge smartphones operating on their networks. BLU Products, an American mobile phone manufacturer, has chosen to make NextRadio the native FM tuner on its Android smartphones. In April 2016, Alcatel entered into a similar arrangement for NextRadio. TagStation LLC and the radio industry continue to work with other leading United States wireless network providers, device manufacturers, regulators and legislators to cause FM tuners to be enabled in all smartphones.

Emmis granted the U.S. radio industry (as defined in the funding agreements) a call option on substantially all of the assets used in the NextRadio and TagStation businesses in the United States. The call option may be exercised in August 2017 or August 2019 by paying Emmis a purchase price equal to the greater of (i) the appraised fair market value of the NextRadio and TagStation businesses, or (ii) two times Emmis' cumulative investments in the development of the businesses. If the call option is exercised, the businesses will continue to be subject to the operating limitations applicable today, and no radio operator will be permitted to own more than 30% of the NextRadio and TagStation businesses.

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. 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 uses to transmit location-based data to hand-held and in-car navigation devices. The number of radio receivers incorporating HD Radio has increased in the past year, particularly in new automobiles. It is unclear what impact HD Radio will have on the markets in which we operate.

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 largest streaming audio providers in the United States, developing highly interactive websites with content that engages our listeners, using SMS texting and deploying mobile applications, harnessing the power of digital video on our websites and YouTube channels, and delivering real-time traffic to navigation devices.

The results of our radio operations are heavily dependent on the results of our stations in the New York and Los Angeles markets. These markets account for approximately 50% of our radio net revenues. Our acquisition of WBLS-FM and WLIB-AM in New York in fiscal 2015 enhanced our ability to adapt to competitive environment shifts in that market, but our single station in the Los Angeles market, KPWR-FM, has less ability to adapt. 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 packaging a variety of advertising inventory at discounted unit rates and may be able to realize operating efficiencies by programming multiple stations in these markets. In February 2015, one of our large competitors changed the format of one of its radio stations in the Los Angeles radio market to more directly compete with our radio station in Los

Angeles. In addition, the new station hired our former KPWR-FM morning radio host to be its morning radio host. This development in Los Angeles negatively impacted our financial performance in fiscal 2016 as well as the first quarter of fiscal 2017. We expect this to continue through the second quarter of fiscal 2017 and possibly beyond.

Both the Los Angeles and New York radio markets showed signs of improvement, up 3.2% and 4.1%, respectively, for the three months ended May 31, 2016 as compared to the same period of the prior year, according to Miller Kaplan Arase LLP, an independent public accounting firm used by the radio industry to compile revenue information. During the same period, KPWR-FM in Los Angeles lagged the Los Angeles radio market due to the introduction of a new format competitor, as discussed above. Our New York cluster, which includes WQHT-FM, WBLS-FM and WLIB-AM, outperformed the New York radio market. We made several leadership changes in New York in January 2016, and financial performance in fiscal 2017 has improved.

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' 2014 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.

### 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. 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. LMA fee revenue is recognized on a straight-line basis over the term of the LMA.

Digonex provides a dynamic pricing service to online retailers, attractions, live event producers and other customers. Revenue is recognized as recommended prices are delivered to customers. In some cases, this is upon initial delivery of prices, such as for implementations, or over the period of the services agreement for fee-based pricing. Revenue pursuant to some service agreements is not earned until tickets or merchandise are sold and, therefore, revenue is recognized as tickets are sold for the related events or as merchandise is sold.

### 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 May 31, 2016, we have recorded approximately $219.8 million in goodwill and FCC licenses, which represents approximately 69% of our total assets.

In the case of our 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.

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. Major assumptions involved in the valuation of our FCC licenses 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. A change in one or more of our major assumptions could result in an impairment charge related to our FCC Licenses.

We complete our annual impairment tests as of 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 or paid to transfer a liability 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

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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. The projections incorporated into our license valuations take current economic conditions into consideration.

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, excluding any stations being operated pursuant to an LMA, 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 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.

Insurance Claims and Loss Reserves

The Company is self-insured for most healthcare claims, subject to stop-loss limits. Claims incurred but not reported are recorded based on historical experience and industry trends, and accruals are adjusted when warranted by changes in facts and circumstances. The Company had $0.7 million and $0.6 million accrued for employee healthcare claims as of February 29, 2016 and May 31, 2016, respectively. The Company also maintains large deductible programs (ranging from $100 thousand to $250 thousand per occurrence) for workers' compensation, employment liability, automotive liability and media liability claims.

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Results of Operations for the Three-month Period Ended May 31, 2016, Compared to May 31, 2015
Net revenues:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Net revenues: | | | | |
| Radio | $42,593 | $42,699 | $106 | 0.2 % |
| Publishing | 15,525 | 13,092 | (2,433 ) | (15.7 )% |
| Emerging Technologies | 335 | 211 | (124 ) | (37.0 )% |
| Total net revenues | $58,453 | $56,002 | $(2,451 ) | (4.2 )% |

Radio net revenues were up slightly for the three-month period ended May 31, 2016. We typically monitor the performance of our stations against the aggregate performance of the markets in which we operate based on reports for the period prepared by Miller Kaplan. Miller Kaplan reports are generally prepared on a gross revenues basis and exclude revenues from barter and syndication arrangements. Miller Kaplan reported gross revenues for our radio markets increased 3.1% for the three-month period ended May 31, 2016 as compared to the same period of the prior year. Our gross revenues were flat for the three-month period ended May 31, 2016 as compared to the same period of the prior year. For the three-month period ended May 31, 2016, our performance exceeded the market average in New York, Indianapolis and St. Louis, but we lagged the market average in Los Angeles and Austin. Miller Kaplan does not report gross revenue market data for our Terre Haute market.

Our weak performance in Los Angeles mostly related to a format competitor that began directly competing against our station there in February 2015. The revenue impact was most pronounced in the second half of fiscal 2016. Emmis expects this weakness to persist through our second quarter in fiscal 2017. However, Emmis expects these declines to abate beginning in the third quarter of fiscal 2017. Excluding Los Angeles, our radio revenues would have been up 5.0% in markets that were up 2.9% according to Miller Kaplan.

For the three-month period ended May 31, 2016, as compared to the same period of the prior year, our average rate per minute for our domestic radio stations was up 1.4%, and our minutes sold were down 2.6%.

Publishing net revenues decreased during the three-month period ended May 31, 2016. A portion of this revenue decline relates to the timing of certain ancillary publications that were published during the three-month period ended May 31, 2015 in the prior year, but will be published after the first quarter in fiscal 2017. Also, we have seen general weakness in advertising demand for Texas Monthly and Los Angeles Magazine, our two largest publications.

Emerging technologies net revenues, which primarily relates to licensing fees of our TagStation software and pricing services provided by Digonex, decreased during the three-month period ended May 31, 2016. This decrease relates to Digonex, as a large retail customer did not renew for 2016.

Station operating expenses excluding depreciation and amortization expense:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Station operating expenses excluding depreciation and amortization expense: | | | | |
| Radio | $28,693 | $27,275 | $(1,418 ) | (4.9 )% |
| Publishing | 15,209 | 13,478 | (1,731 ) | (11.4 )% |
| Emerging Technologies | 1,641 | 2,236 | 595 | 36.3 % |
| | $45,543 | $42,989 | $(2,554 ) | (5.6 )% |

Total station operating expenses excluding depreciation and amortization expense

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The decrease in station operating expenses excluding depreciation and amortization expense for our radio division for the three-month period ended May 31, 2016 is mostly due to savings realized from the cost reduction plan that the Company implemented in January 2016 and the nonrecurring nature of legal expenses the Company incurred in Los Angeles in the prior year associated with litigation against a former radio morning host.
Station operating expenses excluding depreciation and amortization expense for publishing decreased during the three-month period ended May 31, 2016 due to savings realized from the cost reduction plan that the Company implemented in January 2016, lower commission and revenue-related costs as a result of lower net revenues and lower production costs related to ancillary publications that were produced during the three-month period ended May 31, 2015 in the prior year, but will be produced later in the fiscal year in fiscal 2017.
Station operating expenses excluding depreciation and amortization expense for emerging technologies increased during the three-month period ended May 31, 2016 mostly due to costs associated with enhancements to the NextRadio application and additional personnel costs for TagStation and NextRadio in anticipation of increased activity in fiscal 2017.
Corporate expenses excluding depreciation and amortization expense:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Corporate expenses excluding depreciation and amortization expense | $3,819 | $3,044 | $ (775 ) | (20.3 )% |

Corporate expenses excluding depreciation and amortization expense decreased during the three-month period ended May 31, 2016 mostly due to savings realized from the cost reduction plan implemented in January 2016, which includes a voluntary 5% reduction in salary for all of our executive officers.
Depreciation and amortization:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Depreciation and amortization: | | | | |
| Radio | $798 | $907 | $ 109 | 13.7 % |
| Publishing | 61 | 73 | 12 | 19.7 % |
| Corporate & Emerging Technologies | 591 | 352 | (239 ) | (40.4 )% |
| Total depreciation and amortization | $1,450 | $1,332 | $ (118 ) | (8.1 )% |

The increase in radio depreciation and amortization expense is mostly related to depreciation of broadcasting equipment and other equipment placed into service in the latter portion of the prior fiscal year. The decrease in corporate & emerging technologies is mostly due to reduced amortization expense of Digonex-related intangible assets. In connection with our annual review of the carrying value of our intangible assets in December 2015, the Company recorded an impairment charge of approximately $3.4 million related to Digonex's definite-lived intangible assets. This impairment charge reduced the carrying value of the definite-lived intangible assets, and thus reduced amortization for the remainder of the definite-lived intangible assets' useful life.

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Operating income:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Operating income: | | | | |
| Radio | $13,102 | $14,517 | $1,415 | 10.8 % |
| Publishing | 255 | (459 ) | (714 ) | (280.0 )% |
| Corporate & Emerging Technologies | (5,716 ) | (5,421 ) | 295 | 5.2 % |
| Total operating income: | $7,641 | $8,637 | $996 | 13.0 % |

Radio operating income increased in the three-month period ended May 31, 2016 mostly due to lower operating expenses excluding depreciation and amortization expense as a result of the cost reduction plan the Company implemented in January 2016.

Publishing operating income decreased during the three-month period ended May 31, 2016 mostly due to net revenue declines, as previously discussed, partially offset by lower operating expenses excluding depreciation and amortization expense as a result of the cost reduction plan the Company implemented in January 2016.

Corporate and emerging technologies operating loss decreased during the three-month period ended May 31, 2016 due to a reduction in corporate expenses as a result of our cost reduction plan implemented in Janaury 2016. These cost savings were partially offset by a decline in revenues for Digonex and an increase in TagStation and NextRadio operating expenses in anticipation of greater activity for those businesses in fiscal 2017.

Interest expense:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Interest expense | $(4,546) | $(4,690) | $ (144 ) | 3.2 % |

Interest expense was up slightly for the three-month period ended May 31, 2016. Although our overall long-term debt balance declined from the prior year, the rate we pay on amounts borrowed under the Credit Agreement increased in connection with the April 30, 2015 Second Amendment. The weighted-average interest rate of debt outstanding under our 2014 Credit Agreement was 7.0% at May 31, 2016.

Provision for income taxes:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Provision for income taxes | $947 | $675 | $ (272 ) | (28.7 )% |

The Company records 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 approximately $2.5 million for the year ending February 28, 2017.

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Consolidated net income:

| | For the Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | $ Change | % Change |
| | (As reported, amounts in thousands) | | | |
| Consolidated net income | $2,158 | $3,315 | $ 1,157 | 53.6 % |

Consolidated net income for the three-month period ended May 31, 2016 increased mostly due to higher operating income as a result of costs reductions implemented in January 2016.

Liquidity and Capital Resources

Our primary sources of liquidity are cash provided by operations and cash available through revolver borrowings under our Credit Agreement. Our primary uses of capital during the past few years have been, and are expected to continue to be, investments in our growth businesses, strategic acquisitions, capital expenditures, working capital, debt service requirements and the repayment of debt.

At May 31, 2016, we had cash and cash equivalents of $4.3 million and net working capital of $7.0 million. At February 29, 2016, we had cash and cash equivalents of $4.5 million and net working capital of $0.4 million. The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2017 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 2017.

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

On December 7, 2015, the Company received a notification from the Listing Qualifications Department of Nasdaq indicating that the Company's Class A common stock was not in compliance with Markeplace Rule 5450(a)(1) (the “Minimum Bid Price Rule”) because the minimum bid price of the Company's Class A common stock on the Nasdaq Global Select Market closed below $1.00 per share for 30 consecutive business days. In accordance with Marketplace Rules 5810(c)(3)(A), the Company had 180 calendar days, or until June 6, 2016, for our Class A common stock to regain compliance with the Minimum Bid Price Rule. During the 180 day period, the Company’s Class A common stock continued to trade on the Nasdaq Global Select Market. On June 7, 2016, the Company received a written notification (the "Staff Determination")from Nasdaq stating that because the Company had not regained compliance with the $1.00 minimum bid price requirement for continued listing, the Company’s Class A common stock (listed on The Nasdaq Global Select Market under the symbol “EMMS”) would be subject to delisting unless the Company requested a hearing before a Nasdaq Hearings Panel (the "Panel") on or before June 14, 2016.

The Company requested a hearing before the Panel, which stayed any delisting action in connection with the Staff Determination and allowed the continued listing of the Company’s Class A common stock on The Nasdaq Global Select Market until the Panel renders a decision subsequent to the hearing. At the hearing, the Company intends to present a plan to regain compliance with Rule 5450(a)(1) and request that the Panel allow the Company additional time within which to regain compliance. The Company believes that it will be able to present a viable plan to regain compliance because our shareholders are scheduled to vote upon a proposed amendment to our articles of incorporation to permit a one-for-four reverse stock split at our annual meeting on July 7, 2016 and we have already received sufficient votes for the proposal’s adoption. Upon receipt of formal shareholder approval, the reverse stock split is expected to be implemented effective upon the commencement of trading on July 8, 2016. Thus, the Company expects that our Class A common stock will have been trading above $1.00 for ten consecutive trading days on July 21, 2016, the date of our Nasdaq hearing.

Operating Activities

Cash provided by operating activities was $1.7 million and $2.1 million for the three months ended May 31, 2015 and 2016, respectively. The increase in cash provided by operating activities is mostly due to the increase in operating income as previously discussed.

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Investing Activities

Cash used in investing activities was $0.4 million for the three months ended May 31, 2015 and 2016. Cash used in investing activities during both periods consisted primarily of capital expenditures. We expect capital expenditures to be approximately $3.5 million in the current fiscal year, compared to $3.4 million in fiscal 2016. We expect that future requirements for capital expenditures will be limited to capital expenditures incurred during the ordinary course of business. We expect to fund future investing activities with cash generated from operating activities and borrowings under our 2014 Credit Agreement.

Financing Activities

Cash used in financing activities was $1.7 million and $1.9 million for the three months ended May 31, 2015 and 2016, respectively. During the three months ended May 31, 2015, cash used in financing activities related to $1.6 million of distributions paid to noncontrolling interests, $1.1 million of debt-related costs and $0.3 million of tax withholding settlements on stock issued to employees. Partially offsetting these uses of cash in the prior year were net debt borrowings of $1.3 million. During the three months ended May 31, 2016, cash used in financing activities related to $1.2 million of distributions paid to noncontrolling interests, $0.5 million of net debt payments and $0.2 million of tax withholding settlements on stock issued to employees.

As of May 31, 2016, Emmis had $185.6 million of borrowings under the 2014 Credit Agreement and $70.3 million ($64.1 million related to 98.7FM in New York and $6.2 million related to Digonex) of non-recourse debt. Borrowings under the 2014 Credit Agreement bear interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. As of May 31, 2016, our weighted average borrowing rate under our 2014 Credit Agreement was approximately 7.0%. The non-recourse debt related to 98.7FM in New York bears interest at 4.1% per annum and the non-recourse debt related to Digonex bears interest at 5.0% per annum.

The debt service requirements of Emmis over the next twelve-month period are expected to be $22.2 million related to our 2014 Credit Agreement, as amended, ($9.3 million of principal repayments and $12.9 million of interest payments) and $8.1 million related to our 98.7FM non-recourse debt ($5.6 million of principal repayments and $2.5 million of interest payments). There are no debt service requirements of our Digonex non-recourse debt until the debt matures in December 2017. The Company expects that proceeds from the 98.7FM LMA will be sufficient to pay all debt service related to the 98.7FM non-recourse debt. The 2014 Credit Agreement debt bears interest at variable rates. The Company estimated interest payments for the 2014 Credit Agreement above by using the amounts outstanding under the 2014 Credit Agreement as of May 31, 2016 and the weighted average interest rate as of the same date.

At July 1, 2016, we had $7.0 million available for additional borrowing under our credit agreement. No letters of credit were outstanding. Availability under the credit agreement depends upon our continued compliance with certain operating covenants and financial ratios. Emmis was in compliance with these covenants as of May 31, 2016. 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, the 2014 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.

Intangibles

As of May 31, 2016, approximately 69% of our total assets consisted of FCC broadcast licenses and goodwill, the values of which depend significantly upon various factors including, among other things, market revenues, market growth rates and 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 or after the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future.

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.

On July 7, 2014, individuals who had been seeking to overturn the FCC's approval of the transfer of the broadcast licenses for WBLS-FM and WLIB-AM from entities associated with Inner City Broadcasting to YMF (the entities that

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subsequently sold the two stations to Emmis) filed with the U.S. Court of Appeals for the District of Columbia Circuit a Notice of Appeal of the FCC’s approval of the transfer. The U.S. Court of Appeals for the District of Columbia upheld the license transfer. Additionally, in March 2015, an individual filed a lawsuit in the Federal District Court of New York challenging the transfer of the assets of WBLS-FM and WLIB-AM from Inner City to YMF, and claimed that Emmis had exerted undue influence in securing the FCC's consent to the transfer of the FCC licenses of WBLS-FM and WLIB-AM from YMF to Emmis. Based upon the facts alleged in the cases and the extensive precedent of courts not overturning FCC approvals of transfers of broadcast licenses except in exceedingly rare circumstances, Emmis believes the appeal and the claims in the lawsuit are without merit.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

## 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 May 31, 2016 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 Part I, 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.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended May 31, 2016, there was withholding of shares of common stock upon vesting of restricted stock to cover withholding tax obligations. The following table provides information on our repurchases during the three months ended May 31, 2016:

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in 000's) |
|---|---|---|---|---|
| Class A Common Stock | | | | |
| March 1, 2016 - March 31, 2016 | 159,767 | $ 0.54 | — | $ — |
| April 1, 2016 - April 30, 2016 | — | $ — | — | $ — |
| May 1, 2016 - May 31, 2016 | 160,948 | $ 0.52 | — | $ — |
| | 320,715 | | — | |

Item 6. Exhibits

(a) Exhibits.

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

| Exhibit Number | Exhibit Description | Filed Herewith | Incorporated by Reference Form | Period Ending | Exhibit | Filing Date |
|---|---|---|---|---|---|---|
| 3.1 | Second Amended and Restated Articles of Incorporation of Emmis Communications Corporation, as amended effective February 17, 2016 | | 10-K | 2/29/2016 | 3.1 | 5/5/2016 |
| 3.2 | Second Amended and Restated Bylaws of Emmis Communications Corporation | | 10-K | 2/28/2013 | 3.2 | 5/8/2013 |
| 4.1 | Form of stock certificate for Class A common stock | | S-1 | | 3.5 | 12/22/1993 |
| 31.1 | Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act | X | | | | |
| 31.2 | Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act | X | | | | |
| 32.1 | Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.2 | Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 101.INS | XBRL Instance Document | X | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X | | | | |

| | | |
|---|---|---|
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X |

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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: July 7, 2016 By:/s/ RYAN A. HORNADAY

Ryan A. Hornaday

Executive Vice President, Chief Financial Officer and Treasurer