

EMMIS COMMUNICATIONS CORP

Form 10-Q

July 13, 2011

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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, 2011
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 No

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The number of shares outstanding of each of Emmis Communications Corporation's classes of common stock, as of July 7, 2011, was:

33,478,301	Shares of Class A Common Stock, \$.01 Par Value
4,722,684	Shares of Class B Common Stock, \$.01 Par Value
0	Shares of Class C Common Stock, \$.01 Par Value

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

(Unaudited)

(In thousands, except per share data)

	Three Months Ended May 31,	
	2010	2011
NET REVENUES	\$ 60,209	\$ 61,146
OPERATING EXPENSES:		
Station operating expenses excluding depreciation and amortization expense of \$2,050 and \$1,847, respectively	48,877	49,334
Corporate expenses excluding depreciation and amortization expense of \$354 and \$264, respectively	5,178	7,335
Depreciation and amortization	2,404	2,111
Gain on disposal of assets		(3)
Total operating expenses	56,459	58,777
OPERATING INCOME	3,750	2,369
OTHER EXPENSE:		
Interest expense	(5,680)	(7,214)
Loss on debt extinguishment		(1,478)
Other expense, net	(13)	(6)
Total other expense	(5,693)	(8,698)
LOSS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(1,943)	(6,329)
BENEFIT FOR INCOME TAXES	(1,444)	(2,742)
LOSS FROM CONTINUING OPERATIONS	(499)	(3,587)
(GAIN) LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	205	(2,894)
CONSOLIDATED NET LOSS	(704)	(693)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	833	1,352
NET LOSS ATTRIBUTABLE TO THE COMPANY	(1,537)	(2,045)
PREFERRED STOCK DIVIDENDS	2,372	2,523

NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (3,909)	\$ (4,568)
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The accompanying notes are an integral part of these unaudited condensed consolidated statements.

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

(Unaudited)

(In thousands, except per share data)

	Three Months Ended May 31,	
	2010	2011
Amounts attributable to common shareholders:		
Continuing operations	\$ (3,949)	\$ (7,483)
Discontinued operations	40	2,915
Net loss attributable to common shareholders	\$ (3,909)	\$ (4,568)
Basic net income (loss) per share attributable to common shareholders:		
Continuing operations	\$ (0.10)	\$ (0.20)
Discontinued operations, net of tax		0.08
Net loss attributable to common shareholders	\$ (0.10)	\$ (0.12)
Basic weighted average common shares outstanding	37,719	38,201
Diluted net income (loss) per share attributable to common shareholders:		
Continuing operations	\$ (0.10)	\$ (0.20)
Discontinued operations, net of tax		0.08
Net loss attributable to common shareholders	\$ (0.10)	\$ (0.12)
Diluted weighted average common shares outstanding	37,719	38,201

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 28, 2011	May 31, 2011 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,068	\$ 7,170
Accounts receivable, net	38,930	39,497
Prepaid expenses	13,615	13,568
Other current assets	2,329	1,812
Current assets - discontinued operations	2,063	2,167
Total current assets	63,005	64,214
PROPERTY AND EQUIPMENT, NET	44,816	44,487
INTANGIBLE ASSETS (Note 3):		
Indefinite-lived intangibles	328,796	328,796
Goodwill	24,175	24,175
Other intangibles, net	2,689	2,402
Total intangible assets	355,660	355,373
OTHER ASSETS, NET	8,051	6,817
NONCURRENT ASSETS - DISCONTINUED OPERATIONS	945	21
Total assets	\$ 472,477	\$ 470,912

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

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

(In thousands, except share data)

	February 28, 2011	May 31, 2011 (Unaudited)
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 9,815	\$ 11,699
Current maturities of long-term debt	3,293	3,228
Accrued salaries and commissions	9,757	8,623
Accrued interest	3,147	4,903
Deferred revenue	18,595	17,795
Other current liabilities	5,409	4,444
Current liabilities discontinued operations	854	929
Total current liabilities	50,870	51,621
LONG-TERM DEBT, NET OF CURRENT MATURITIES	327,704	327,280
OTHER NONCURRENT LIABILITIES	14,018	14,102
DEFERRED INCOME TAXES	81,411	81,414
Total liabilities	474,003	474,417
COMMITMENTS AND CONTINGENCIES		
SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK, \$0.01 PAR VALUE; \$50.00 LIQUIDATION PREFERENCE; AUTHORIZED 10,000,000 SHARES; ISSUED AND OUTSTANDING 2,809,170 SHARES AT FEBRUARY 28, 2011 AND MAY 31, 2011		
	140,459	140,459
SHAREHOLDERS DEFICIT:		
Class A common stock, \$.01 par value; authorized 170,000,000 shares; issued and outstanding 33,499,770 shares at February 28, 2011 and 33,478,301 shares at May 31, 2011	335	335
Class B common stock, \$.01 par value; authorized 30,000,000 shares; issued and outstanding 4,722,684 shares at February 28, 2011 and May 31, 2011, respectively	47	47
Additional paid-in capital	528,786	528,955
Accumulated deficit	(720,693)	(722,738)
Accumulated other comprehensive loss	1,776	1,690
Total shareholders deficit	(189,749)	(191,711)
NONCONTROLLING INTERESTS	47,764	47,747

Total deficit	(141,985)	(143,964)
Total liabilities and deficit	\$ 472,477	\$ 470,912

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

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

(Unaudited)

(In thousands, except share data)

	Class A		Class B		Additional	Accumulated	Accumulated	Noncontrolling	Total
	Common	Amount	Common	Amount	Paid-in	Accumulated	Other	Interests	Deficit
	Shares		Shares		Capital	Deficit	Loss		
BALANCE, FEBRUARY 28, 2011	33,499,770	\$ 335	4,722,684	\$ 47	\$ 528,786	\$ (720,693)	\$ 1,776	\$ 47,764	\$ (141,985)
Issuance of Common Stock to employees and officers and related income tax benefits		(21,469)			169				169
Conversion of Class B Common Stock to Class A Common Stock									
Payments of dividends and distributions to noncontrolling interests								(1,400)	(1,400)
Comprehensive Loss:									
Net income (loss)						(2,045)		1,352	
Change in value of derivative instrument and related income tax effects							(489)		
Cumulative translation adjustment							403	31	
Total comprehensive loss									(748)
BALANCE, MAY 31, 2011	33,478,301	\$ 335	4,722,684	\$ 47	\$ 528,955	\$ (722,738)	\$ 1,690	\$ 47,747	\$ (143,964)

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

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

	Three Months Ended May 31,	
	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net loss	\$ (704)	\$ (693)
Adjustments to reconcile consolidated net loss to net cash used in operating activities -		
Discontinued operations	205	(2,894)
Depreciation and amortization	2,700	2,322
Loss on debt extinguishment		1,478
Provision for bad debts	284	120
Benefit for deferred income taxes	(1,174)	(2,789)
Noncash compensation	743	282
Gain on sale of assets		(3)
Changes in assets and liabilities -		
Accounts receivable	(3,293)	(557)
Prepaid expenses and other current assets	768	673
Other assets	(53)	(48)
Accounts payable and accrued liabilities	(61)	2,468
Deferred revenue	(1,415)	(800)
Income taxes	(346)	(223)
Other liabilities	(1,880)	(603)
Net cash provided by (used in) operating activities discontinued operations	1,222	(8)
Net cash used in operating activities	(3,004)	(1,275)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(617)	(1,273)
Other	12	9
Net cash provided by (used in) investing activities discontinued operations	(86)	5,797
Net cash provided by (used in) investing activities	(691)	4,533

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

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

	Three Months Ended May 31,	
	2010	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(2,848)	(6,489)
Proceeds from long-term debt	8,000	6,000
Debt-related costs		(516)
Payments of dividends and distributions to noncontrolling interests	(868)	(1,400)
Settlement of tax withholding obligations on stock issued to employees	(82)	(74)
Net cash used in financing activities discontinued operations	(386)	
Net cash provided by (used in) financing activities	3,816	(2,479)
Effect of exchange rates on cash and cash equivalents	(212)	323
INCREASE IN CASH AND CASH EQUIVALENTS	(91)	1,102
CASH AND CASH EQUIVALENTS:		
Beginning of period	6,814	6,068
End of period	\$ 6,723	\$ 7,170
SUPPLEMENTAL DISCLOSURES:		
Cash paid for -		
Interest	\$ 6,569	\$ 4,742
Income taxes, net of refunds	617	559
Noncash financing transactions-		
Value of stock issued to employees under stock compensation program and to satisfy accrued incentives	728	242

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, 2011

(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 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 28, 2011. The Company s results are subject to seasonal fluctuations. Therefore, results shown on an interim basis are not necessarily indicative of results for a full year.

In the opinion of Emmis, the accompanying condensed consolidated interim financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of Emmis at May 31, 2011, and the results of its operations and cash flows for the three-month periods ended May 31, 2010 and 2011.

Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities at May 31, 2010 and 2011, consisted of stock options, restricted stock awards and the 6.25% Series A cumulative convertible preferred stock. We currently have 2.8 million shares of preferred stock outstanding and each share converts into 2.44 shares of common stock. Shares excluded from the calculation as the effect of their conversion into shares of our common stock would be antidilutive were as follows:

	Three Months Ended May 31,	
	2010	2011
	(shares in 000 s)	
6.25% Series A cumulative convertible preferred stock	6,854	6,854
Stock options and restricted stock awards	8,257	7,477
Antidilutive common share equivalents	15,111	14,331

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On October 28, 2009, the Hungarian National Radio and Television Board (ORTT) announced that it was awarding to another bidder the national radio license then held by our majority-owned subsidiary, Slager. Slager ceased broadcasting effective November 19, 2009.

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

	Three months ended May 31,	
	2010	2011
Net revenues	\$ 7	\$ 7
Station operating expenses, excluding depreciation and amortization expense	427	90
Other income	163	95
Income (loss) before taxes	(257)	12
Loss attributable to minority interests	(245)	(21)

Discontinued Operation Flint Peak Tower Site

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

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

	Three months ended May 31,	
	2010	2011
Net revenues	\$ 131	\$ 59
Station operating expenses, excluding depreciation and amortization expense	26	49
Depreciation and amortization	17	7
Gain on sale of assets		4,882
Income before income taxes	88	4,885
Provision for income taxes	36	2,003

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

	As of February 28, 2011		As of May 31, 2011	
	Flint Peak		Flint Peak	
	Slager	Tower Site and Other	Slager	Tower Site and Other
Current assets:				
Cash and cash equivalents	\$ 1,658	\$	\$ 1,713	\$
Accounts receivable, net	63		73	
Other	342		381	
Total current assets	2,063		2,167	
Noncurrent assets:				
Property and equipment, net		925		
Other noncurrent assets	20		21	
Total noncurrent assets	20	925	21	
Total assets	\$ 2,083	\$ 925	\$ 2,188	\$
Current liabilities:				
Accounts payable and accrued expenses	\$ 723	\$ 111	\$ 805	\$ 124
Deferred revenue		20		
Total current liabilities	\$ 723	\$ 131	\$ 805	\$ 124

Note 2. Share Based 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 three years (one-third each year for three years), or cliff vest at the end of three years. The Company issues new shares upon the exercise of stock options.

The amounts recorded as share based compensation expense primarily relate to annual stock option and restricted stock grants, but may also include restricted common stock issued under employment agreements, common stock issued to employees and directors in lieu of cash payments, and Company matches of common stock in our 401(k) plan.

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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 Company uses the simplified method to estimate the expected term for all options granted. Although the Company has granted options for many years, the historical exercise activity of our options was impacted by the way the Company processed the equitable adjustment of our November 2006 special dividend. Consequently, the Company believes that reliable data regarding exercise behavior only exists for the period subsequent to November 2006, which is insufficient experience upon which to estimate the expected term. 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, 2010 and 2011:

	Three Months Ended May 31,	
	2010	2011
Risk-Free Interest Rate:	2.9%	2.3% - 2.5%
Expected Dividend Yield:	0%	0%
Expected Life (Years):	6.5	6.0
		110.2% -
Expected Volatility:	98.9%	110.9%

The following table presents a summary of the Company's stock options outstanding at May 31, 2011, and stock option activity during the three months ended May 31, 2011 (Price reflects the weighted average exercise price per share):

	Options	Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of period	8,515,491	\$ 9.26		
Granted	750,000	1.12		
Exercised (1)				
Forfeited	31,500	0.72		
Expired	954,180	18.09		
Outstanding, end of period	8,279,811	7.54	5.7	\$ 1,562
Exercisable, end of period	4,798,829	12.48	3.7	\$ 11

(1) No options were exercised during the three months ended May 31, 2010 or 2011; thus, the Company did not record an income tax benefit related to option exercises.

The weighted average grant date fair value of options granted during the three months ended May 31, 2010 and 2011, was \$0.73 and \$0.94, respectively.

A summary of the Company's nonvested options at May 31, 2011, and changes during the three months ended May 31, 2011, is presented below:

**Weighted
Average
Grant Date**

	Options	Fair Value
Nonvested, beginning of period	2,946,661	\$ 0.50
Granted	750,000	0.94
Vested	184,179	1.45
Forfeited	31,500	0.51
Nonvested, end of period	3,480,982	0.54

There were 3.9 million shares available for future grants under the Company's various equity plans at May 31, 2011. The vesting dates of outstanding options at May 31, 2011 range from July 2011 to May 2014, and expiration dates range from June 2011 to May 2021.

Restricted Stock Awards

The Company grants restricted stock awards to employees and directors. These awards generally vest at the end of the second or third year after grant and are forfeited, except in certain circumstances, in the event the employee terminates his or her employment or relationship with the Company prior to vesting. Restricted stock award grants prior to fiscal 2011 were granted out of the Company's 2004 Equity Compensation Plan and restricted stock award grants since March 1, 2010 have been granted out of the Company's 2010 Equity Compensation Plan. The Company may also award, out of the Company's 2010 Equity Compensation Plan, stock to settle certain bonuses and other compensation that otherwise would be paid in cash. Any restrictions on these shares are immediately lapsed on the grant date.

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The following table presents a summary of the Company's restricted stock grants outstanding at May 31, 2011, and restricted stock activity during the three months ended May 31, 2011 (Price reflects the weighted average share price at the date of grant):

	Awards	Price
Grants outstanding, beginning of year	174,956	\$ 3.37
Granted		
Vested (restriction lapsed)	146,421	3.87
Forfeited		
Grants outstanding, end of year	28,535	0.84

The total grant date fair value of shares vested during the three months ended May 31, 2010 and 2011 was \$2.0 million and \$0.6 million, respectively.

Recognized Non-Cash Compensation Expense

The following table summarizes stock-based compensation expense and related tax benefits recognized by the Company in the three months ended May 31, 2010 and 2011:

	Three Months Ended May 31,	
	2010	2011
Station operating expenses	\$ 431	\$ 80
Corporate expenses	312	202
Stock-based compensation expense included in operating expenses	743	282
Tax benefit		
Recognized stock-based compensation expense, net of tax	\$ 743	\$ 282

As of May 31, 2011, there was \$1.0 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 1.5 years.

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

In accordance with Accounting Standards Codification (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 \$328.8 million as of February 28, 2011 and May 31, 2011. This amount is entirely attributable to our radio division. 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, 2011, 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.

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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 a Local Marketing Agreement by another broadcaster.

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. During the quarter ended May 31, 2011, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. When assessing its goodwill for impairment, the Company uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units (radio stations grouped by market and magazines on an individual basis). Management determines enterprise value for each of its reporting units by multiplying the two-year average station operating income generated by each reporting unit (current year based on actual results and the next year based on budgeted results) by an estimated market multiple. The Company uses a blended station operating income trading multiple of publicly traded radio operators as a benchmark for the multiple it applies to its radio reporting units. There are no publicly traded publishing companies that are focused predominantly on city and regional magazines as is our publishing segment. Therefore, the market multiple used as a benchmark for our publishing reporting units has been based on recently completed transactions within the city and regional magazine industry or analyst reports that include valuations of magazine divisions within publicly traded media conglomerates. Management believes this methodology for valuing radio and publishing properties is a common approach and believes that the multiples used in the valuation are reasonable given our peer comparisons and recent market transactions. To corroborate the step-one reporting unit fair values determined using the market approach described above, management also uses an income approach, which is a discounted cash flow method to determine the fair value of the reporting unit.

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

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As of February 28, 2011 and May 31, 2011, the carrying amount of the Company's goodwill was \$24.2 million. As of February 28, 2011 and May 31, 2011 approximately \$6.3 million and \$17.9 million of our goodwill was attributable to our radio and publishing divisions, respectively.

Definite-lived intangibles

The Company's definite-lived intangible assets consist primarily of foreign broadcasting licenses, trademarks, and favorable office leases, 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 28, 2011 and May 31, 2011:

	Weighted Average Remaining Useful Life (in years)	February 28, 2011			May 31, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Foreign Broadcasting Licenses	1.8	\$ 8,716	\$ 6,331	\$ 2,385	\$ 8,716	\$ 6,606	\$ 2,110
Trademarks	13.8	749	478	271	749	485	264
Favorable Office Leases	1.3	688	655	33	688	660	28
TOTAL		\$ 10,153	\$ 7,464	\$ 2,689	\$ 10,153	\$ 7,751	\$ 2,402

Total amortization expense from definite-lived intangibles for the three months ended May 31, 2010 and 2011, was \$0.3 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),

2012	\$ 1,185
2013	1,185
2014	114
2015	18
2016	18

In May 2011, Emmis was granted an extension of its broadcasting license in Slovakia, which now expires in February 2021. Emmis was also awarded an option for an additional eight year extension.

Note 4. Liquidity

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, principal and interest payments on its indebtedness and preferred stock dividends. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2012 with cash and cash equivalents on hand, projected cash flows from operations and, to the extent necessary, through its borrowing capacity under the Credit Agreement, which was approximately \$11.4 million at May 31, 2011. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2012.

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Borrowings under the Credit Agreement depend upon our continued compliance with certain operating covenants and financial ratios. The Company must maintain a minimum amount of trailing twelve-month Consolidated EBITDA (as defined in the Credit Agreement) and at least \$5 million in Liquidity (as defined in the Credit Agreement). The Credit Agreement also contains certain other non-financial covenants. We were in compliance with all financial and non-financial covenants as of May 31, 2011. Our Liquidity (as defined in the Credit Agreement) as of May 31, 2011 was \$14.1 million. Our minimum Consolidated EBITDA (as defined in the Credit Agreement) requirement and actual amount as of May 31, 2011 was as follows:

	As of May 31, 2011	
Covenant		Actual Trailing Twelve-Month Consolidated EBITDA¹
Requirement		
Trailing Twelve-month Consolidated EBITDA ¹	\$ 23,600	\$ 28,514

Note 5. Derivative Instruments and Hedging Activities

As of May 31, 2011, the Company has no outstanding interest rate derivatives. The discussion below describes the Company's interest rate derivatives that matured during the periods presented.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage interest rate exposure with the following objectives:

- manage current and forecasted interest rate risk while maintaining optimal financial flexibility and solvency
- proactively manage the Company's cost of capital to ensure the Company can effectively manage operations and execute its business strategy, thereby maintaining a competitive advantage and enhancing shareholder value
- comply with covenant requirements in the Company's Credit Agreement

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives were to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily used interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Under the terms of its Credit Agreement, the Company was required to fix or cap the interest rate on at least 30% of its debt outstanding (as defined in the Credit Agreement) for the three-year period ending November 2, 2009.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company's interest rate derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives was recognized directly in earnings. The Company did not record any hedge ineffectiveness in earnings during the three months ended May 31, 2010 and 2011. Amounts reported in accumulated other comprehensive loss related to derivatives were reclassified to interest expense as interest payments were made on the Company's variable-rate debt.

¹ As defined in the Credit Agreement

	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2010	2011	Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	2010	2011	Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	2010	2011
Derivatives in Cash Flow Hedging Relationships								
Interest Rate Swap Agreements	\$ 156	\$	Interest expense	\$ (1,577)	\$ (297)	N/A	\$	\$
Total	\$ 156	\$		\$ (1,577)	\$ (297)		\$	\$

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The Company managed its counterparty risk by entering into derivative instruments with global financial institutions where it believed the risk of credit loss resulting from nonperformance by the counterparty is low. The Company's counterparty on its outstanding interest rate swaps were Bank of America and Deutsche Bank.

In accordance with ASC Topic 820, the Company made Credit Value Adjustments (CVAs) to adjust the valuation of derivatives to account for our own credit risk with respect to all derivative liability positions. The CVA was accounted for as a decrease to the derivative position with the corresponding increase or decrease reflected in accumulated other comprehensive income (loss) for derivatives designated as cash flow hedges. The CVA also accounted for nonperformance risk of our counterparty in the fair value measurement of all derivative asset positions, when appropriate. As of February 28, 2011, the fair value of our derivative instruments was net of less than \$0.1 million in CVAs.

The Company did not post any collateral related to the interest rate swap agreements.

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 28, 2011 and May 31, 2011. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	As of May, 2011			Total
	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	
Available for sale securities	\$	\$	\$ 189	\$ 189
Total assets measured at fair value on a recurring basis	\$	\$	\$ 189	\$ 189

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	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	As of February 28, 2011		Total
		Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	
Available for sale securities	\$	\$	\$ 189	\$ 189
Total assets measured at fair value on a recurring basis	\$	\$	\$ 189	\$ 189
Interest rate swap agreements			297	297
Total liabilities measured at fair value on a recurring basis	\$	\$	\$ 297	\$ 297

Available for sale securities Emmis available for sale security is an investment in preferred stock of a company that specializes in digital radio transmission technology that is not traded in active markets. The investment is recorded at fair value. This is considered a Level 3 input.

Swap agreements Emmis derivative financial instruments consisted solely of interest rate cash flow hedges in which the Company paid a fixed rate and receives a variable interest rate that was observable based upon a forward interest rate curve, as adjusted for the CVA discussed in Note 5. Because a more than insignificant portion of the valuation was based upon unobservable inputs, these interest rate swaps were considered a Level 3 input.

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, 2010		May 31, 2011	
	Available For Sale Securities	Derivative Instruments	Available For Sale Securities	Derivative Instruments
Beginning Balance	\$ 452	\$ 4,068	\$ 189	\$ 297
Realized losses included in earnings		(1,577)		(297)
Changes in other comprehensive income		(156)		
Ending Balance	\$ 452	\$ 2,335	\$ 189	\$

Non-Recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis under circumstances and events that include those described in Note 3, Intangible Assets and Goodwill, and are adjusted to fair value only when the carrying values are more than the fair values. The categorization of the framework used to price the assets is

considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value (see Note 3 for more discussion).

During the three months ended May 31, 2011, there were no adjustments to the fair value of these assets as there were no indicators that would have required interim testing.

Fair Value Of Other Financial Instruments

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

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

Cash and cash equivalents, accounts receivable and accounts payable, including accrued liabilities: The carrying amount of these assets and liabilities approximates fair value because of the short maturity of these instruments.

Credit Agreement debt: As of February 28, 2011 and May 31, 2011, the fair value of the Company's Credit Agreement as of those dates was \$311.1 million and \$320.1 million, respectively, while the carrying value was \$331.0 million and \$330.5 million, respectively. The Company's assessment of the fair value of the Credit Agreement debt is based on bid prices for the portion of debt that is actively traded. The Extended Term Loans are not actively traded (see Note 9 for more discussion of the Extended Term Loans). The Company believes that the current carrying value of the Extended Term Loans approximates its fair value.

6.25% Series A cumulative convertible preferred stock: As of February 28, 2011 and May 31, 2011, the fair value of the Company's 6.25% Series A cumulative convertible preferred stock based on quoted market prices was \$49.2 million and \$51.1 million, respectively, while the carrying value was \$140.5 million for both periods.

Note 7. Comprehensive Income (Loss)

Comprehensive income (loss) was comprised of the following for the three months ended May 31, 2010 and 2011:

	Three Months Ended May 31,	
	2010	2011
Consolidated net loss	\$ (704)	\$ (693)
Other comprehensive income (loss), net of tax:		
Change in fair value of derivatives	(259)	(489)
Translation adjustment	(407)	434
Comprehensive loss	\$ (1,370)	\$ (748)
Less: Comprehensive income attributable to noncontrolling interests	(774)	(1,321)
Comprehensive loss attributable to the Company	\$ (2,144)	\$ (2,069)

Note 8. Segment Information

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

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

	Net Revenues		Long-lived Assets	
	Three Months Ended May 31,		As of February 28, 2011	As of May 31, 2011
	2010	2011		
<i>Continuing Operations:</i>				
Slovakia	\$ 3,059	\$ 2,672	\$ 7,521	\$ 7,218
Bulgaria	313	255	778	784

Discontinued Operations (see Note 1):

Hungary	\$ 7	\$ 7	\$ 20	\$ 21
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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 28, 2011, and in Note 1 to these condensed consolidated financial statements, are applied consistently across segments.

Three Months Ended May 31, 2011	Radio	Publishing	Corporate	Consolidated
Net revenues	\$ 45,370	\$ 15,776	\$	\$ 61,146
Station operating expenses, excluding depreciation and amortization	32,988	16,346		49,334
Corporate expenses, excluding depreciation and amortization			7,335	7,335
Depreciation and amortization	1,735	112	264	2,111
Gain on sale of fixed assets	(3)			(3)
Operating income (loss)	\$ 10,650	\$ (682)	\$ (7,599)	\$ 2,369

Three Months Ended May 31, 2010	Radio	Publishing	Corporate	Consolidated
Net revenues	\$ 44,233	\$ 15,976	\$	\$ 60,209
Station operating expenses, excluding depreciation and amortization	33,010	15,867		48,877
Corporate expenses, excluding depreciation and amortization			5,178	5,178
Depreciation and amortization	1,918	132	354	2,404
Operating income (loss)	\$ 9,305	\$ (23)	\$ (5,532)	\$ 3,750

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		As of February 28, 2011			
	Radio	Publishing	Corporate	Consolidated	
Assets continuing operations	\$ 404,302	\$ 38,299	\$ 26,868	\$ 469,469	
Assets discontinued operations	3,008			3,008	
Total assets	\$ 407,310	\$ 38,299	\$ 26,868	\$ 472,477	

		As of May 31, 2011			
	Radio	Publishing	Corporate	Consolidated	
Assets continuing operations	\$ 406,102	\$ 35,457	\$ 27,165	\$ 468,724	
Assets discontinued operations	2,188			2,188	
Total assets	\$ 408,290	\$ 35,457	\$ 27,165	\$ 470,912	

Note 9. Credit Agreement Amendment

On March 29, 2011, ECC and its principal operating subsidiary, Emmis Operating Company (EOC and the Borrower) entered into the Third Amendment to Amended and Restated Revolving Credit and Term Loan Agreement (the Third Amendment), by and among the Borrower, ECC, the lending institutions party to the Credit Agreement and Bank of America, N.A., as administrative agent for itself and the other lenders party to the Credit Agreement.

Among other things, the Third Amendment provides that (i) the leverage ratio and fixed charge covenants will not apply to any amounts outstanding under the Credit Agreement until November 30, 2012, at which time they will be set at 5.0x and 1.15x for the life of the Credit Agreement and from November 30, 2011 through August 31, 2012 there will be a minimum Consolidated EBITDA (as defined in the Credit Agreement) test of \$25.0 million per rolling four quarter test period, (ii) the requirement that annual audits be certified without qualification will be waived for the fiscal years ending February 2011 and 2012, (iii) the ability of Emmis to engage in certain activities or transactions, including the payment of dividends, the incurrence of indebtedness and the ability to invest certain proceeds including from asset sales will be further restricted or prohibited and (iv) the terms of the existing Tranche B Term Loans held or purchased on or prior to the date of the Third Amendment by funds or accounts managed by Canyon Capital Advisors LLC (Canyon), are amended into an amended tranche of term loans with an extended maturity date of November, 2014. The total amount of Tranche B Term Loans outstanding as of March 29, 2011 was \$329 million, and the amount of such term loans that Canyon amended into extended term loans was approximately \$182.9 million (the Extended Term Loans). The pricing on the Extended Term Loans is based on Emmis' election on the following pricing grid:

Cash Portion	Paid-in-Kind Portion
7.50%	7.00%
7.75%	6.50%
8.00%	6.00%
8.25%	5.50%
8.50%	5.00%
8.75%	4.50%
9.00%	4.00%
9.25%	3.50%
9.50%	3.00%

9.75%¹

2.50%¹

- 1 If the Company elects 9.75% Cash Portion for any payment, it may also elect to pay some or the entire Paid-in-Kind portion in cash for such period.

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Prior to the entry into the Third Amendment, Emmis entered into a backstop letter agreement, dated March 27, 2011, with Canyon (the Backstop Letter Agreement), pursuant to which Canyon agreed to consent to the Third Amendment and to purchase loans necessary to provide the required Lenders' consent to the Third Amendment. In consideration of Canyon's entering into the Backstop Letter Agreement, Canyon will receive an exit fee of 6% (or 3% during the first six months after the Third Amendment effective date) on the repayment of Tranche B Term Loans and revolving credit commitments held or purchased by funds or accounts managed by Canyon as of March 29, 2011. The Company is accreting the estimated exit fee due to Canyon over the estimated life of the Extended Term Loans. For the three months ended May 31, 2011, accretion of the exit fee totaled \$0.5 million and is included in the accompanying condensed consolidated statement of operations as interest expense. The exit fee liability is included in the condensed consolidated balance sheets in the other noncurrent liabilities.

The Third Amendment contains other terms and conditions customary for financing arrangements of this nature. Subsequent to the execution of the Third Amendment on March 29, 2011, the maturity dates of the original term loan and revolver remain unchanged, but the term loans held by Canyon have been extended to November 1, 2014. The contractual future amortization schedule for the Credit Agreement subsequent to the execution of the Third Amendment, based upon amounts outstanding at May 31, 2011 is as follows:

Year Ended	Revolver	Amortization of Term Loans Held by Canyon	Amortization of Term Loans Held by Others	Total
February 28 (29),	Amortization			Amortization
2012		1,341	1,071	2,412
2013	8,000	1,773	1,417	11,190
2014		1,754	140,760	142,514
2015		174,389		174,389
Total	\$ 8,000	\$ 179,257	\$ 143,248	\$ 330,505

The Company recognized a \$1.5 million loss on debt extinguishment related to the write-off of existing deferred debt issuance costs related to the Extended Term Loans. The Company incurred approximately \$3.4 million of professional fees associated with the Third Amendment. The Company capitalized approximately \$0.4 million of these costs as debt issuance costs, which are being amortized over the life of the Extended Term Loans. The remaining \$3.0 million of these costs were expensed as a component of corporate expenses in the three-month period ended May 31, 2011.

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Note 10. Regulatory, Legal and Other Matters

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

On December 24, 2010, Emmis entered into an agreement with Bose McKinney & Evans, LLP (Bose) and JS Acquisition LLC for the purpose of coordinating the prosecution of certain litigation (the Litigation) by JS Acquisition against Alden Global Distressed Opportunities Master Fund, L.P., Alden Global Value Recovery Master Fund, L.P., and Alden Media Holdings, LLC (collectively, Alden) relating to the going private transaction in which Emmis, JS Acquisition and Alden participated. Under the terms of the agreement, Bose is representing both Emmis and JS Acquisition in connection with the Litigation. Emmis has agreed to initially invest up to \$0.2 million in support of the prosecution of JS Acquisition's claim in exchange for first recoupment of 150% of the amount invested from any JS Acquisition recovery. The investment by Emmis, which is currently included in deposits and other in the accompanying consolidated balance sheets, was unanimously approved by Emmis' Board of Directors, including all of its independent directors. Subsequently, Alden sued each of the directors of Emmis in New York state court alleging breach of fiduciary duty and related claims. Emmis believes the Alden claims are without merit. In addition, on March 21, 2011, Emmis filed suit against Alden in Federal District Court for the Southern District of New York, seeking recoupment of approximately \$0.3 million of short-swing profits under section 16 of the Securities Exchange Act of 1934.

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

Effective December 31, 2009, our radio music license agreements with the two largest performance rights organizations, American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI), expired. The Radio Music License Committee (RMLC), which negotiates music licensing fees for most of the radio industry with ASCAP and BMI and of which we are a participant, filed motions in the U.S. District Court in New York against BMI and ASCAP on behalf of the radio industry, seeking interim fees and a determination of fair and reasonable industry-wide license fees. The U.S. District Court in New York approved reduced interim fees for ASCAP and BMI. The final fees, still to be determined by the court, may be retroactive to January 1, 2010 and may be different from the interim fees.

Note 11. Subsequent Event

On June 20, 2011, subsidiaries of Emmis, entered into a Purchase Agreement with GTCR Merlin Holdings, LLC (Merlin Holdings), which will be an affiliate of investment funds managed by GTCR, LLC, and Benjamin L. Homel (aka Randy Michaels) (together, the Investors), pursuant to which Emmis agreed to sell to the Investors a controlling interest in Merlin Media, LLC (Merlin Media), which will own the following radio stations: (i) WKQX-FM, 101.1 MHz, Channel 266, Chicago, IL (FIN 19525), (ii) WRXP-FM, 101.9 MHz, Channel 270, New York, NY (FIN 67846) and (iii) WLUP-FM, 97.9 MHz, Channel 250, Chicago, IL (FIN 73233).

Purchase Agreement

Under the Purchase Agreement, Emmis may elect at closing to receive aggregate cash proceeds in the transaction of between \$110 million and \$130 million. Upon consummation of the transaction, Emmis will retain equity interests in Merlin Media, the level of which will depend on the aggregate amount of cash proceeds Emmis elects to receive.

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The Purchase Agreement contains customary representations, warranties, covenants and indemnities. The proposed transaction is expected to close in the second half of 2011, subject to approval by the Federal Communications Commission and other customary conditions to closing.

In connection with the transaction, Emmis expects to incur approximately \$10 million of expenses, principally consisting of severance, state and local taxes, debt redemption premiums, and professional fees. Net cash proceeds will be used to repay a portion of the term loans outstanding under our credit facility.

LLC Agreement of Merlin Media

Emmis' rights with respect to its retained equity interests in Merlin Media will be governed by a limited liability company agreement to be executed at closing with the Investors (the LLC Agreement). Emmis will retain preferred equity and common equity interests in Merlin Media. Emmis' common interests will vary depending on the cash election by Emmis under the Purchase Agreement, and will initially represent approximately 20% to 35% of Merlin's common equity interests. Emmis' preferred interests will also vary depending on the cash election by Emmis under the Purchase Agreement and will initially represent from approximately \$28 million to \$47 million of preferred interests, accruing pay-in-kind dividends of 8% per annum. The preferred interests held by Emmis will initially be junior to preferred interests held by the Investors of approximately \$67 million to \$87 million (depending on the cash election by Emmis under the Purchase Agreement), which senior preferred also accrues pay-in-kind dividends at a rate of 8% per annum. The Emmis junior preferred will also be junior to at least \$60 million of a senior secured note to be issued to GTCR in the transaction. The note will mature five years from closing and will accrue interest at a rate of 15% per annum.

Under the LLC Agreement, Emmis will be entitled initially to appoint one out of five members of Merlin Media's board of managers and will have limited consent rights with respect to specified transactions. Emmis will have no obligation to make ongoing capital contributions to Merlin Media, but is subject to dilution if it fails to participate pro rata in future capital calls.

Merlin Media will initially be a private company and Emmis will have limited ability to sell its interests, except pursuant to customary tag-along rights with respect to sales by Merlin Media's controlling Investor or, after five years, a private sale to third parties subject to rights of first offer held by the controlling Investor. Emmis will also receive customary registration rights and will be subject to a drag-along right of the controlling Investor.

Local Programming and Marketing Agreement

In connection with the transactions, a subsidiary of Merlin Holdings (LMA Merlin), Merlin Media and affiliates of Emmis entered into a Local Programming and Marketing Agreement pursuant to which LMA Merlin will commence providing programming and selling advertising at the stations held by Merlin Media within 45 days from the signing date, pending satisfaction of closing conditions including regulatory approvals for closing under the Purchase Agreement. Emmis will retain ownership of the stations during the term of the Local Marketing Agreement and will receive a fee from LMA Merlin of \$0.2 million per month.

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

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

general economic and business conditions;

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

our ability to service our outstanding debt;

loss of key personnel;

increased competition in our markets and the broadcasting industry;

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

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

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

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

changes in radio audience measurement methodologies;

competition from new or different technologies;

war, terrorist acts or political instability; and

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

For a more detailed discussion of these and other risk factors, see the Risk Factors section of our Annual Report on Form 10-K, for the year ended February 28, 2011. Emmis does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise.

GENERAL

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

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

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

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The following table summarizes the sources of our revenues for the three-month periods ended May 31, 2010 and 2011. All revenues generated by our international radio properties are included in the Local category. The category Non Traditional principally consists of ticket sales and sponsorships of events our stations and magazines conduct in their local markets. The category Other includes, among other items, revenues generated by the websites of our entities and barter.

	2010	Three Months Ended May 31,		
		% of Total	2011	% of Total
	(Dollars in thousands)			
Net revenues:				
Local	\$ 36,327	60.3%	\$ 35,166	57.5%
National	8,704	14.5%	9,048	14.8%
Political	344	0.6%	266	0.4%
Publication Sales	3,535	5.9%	3,444	5.6%
Non Traditional	2,622	4.4%	2,956	4.8%
Other	8,677	14.3%	10,266	16.9%
Total net revenues	\$ 60,209		\$ 61,146	

As previously mentioned, we derive approximately 70% of our net revenues from advertising sales. Our radio stations derive a higher percentage of their advertising revenues from local sales than our publishing entities. In the three-month period ended May 31, 2011, local sales, excluding political revenues, represented approximately 82% and 69% 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 58% and 61% of our radio division's total advertising net revenues for the three months ended May 31, 2010 and 2011, respectively. The automotive industry, representing approximately 9% and 10% of our radio net revenues, is the largest category for our radio division for the three-month periods ended May 31, 2010 and 2011, respectively.

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

KNOWN TRENDS AND UNCERTAINTIES

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

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

The Company has also aggressively worked to harness the power of broadband and mobile media distribution in the development of emerging business opportunities by becoming one of the fifteen largest streaming audio providers in the United States, developing highly interactive websites with content that engages our listeners, using SMS texting and delivering real-time traffic to navigation devices.

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

Arbitron Inc., the supplier of ratings data for United States radio markets, has developed technology to passively collect data for its ratings service. The Portable People Meter[™] (PPM[™]) is a small, pager-sized device that does not require any active manipulation by the end user and is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals that are encoded for the service by the broadcaster. The PPM[™] offers a number of advantages over the traditional diary ratings collection system including ease of use, more reliable ratings data and shorter time periods between when advertising runs and when audience listening or viewing habits can be reported. This service began in the New York, Los Angeles and Chicago markets in October 2008, in the St. Louis market in October 2009, and the Austin and Indianapolis markets in the fall of 2010. In each market in which the service has launched, there has been a compression in the relative ratings of all stations in the market, increasing the competitive pressure within the market for advertising dollars. In addition, ratings for certain stations when measured by the PPM[™] as opposed to the traditional diary methodology can be materially different. The Company continues to evaluate the impact PPM[™] will have on our revenues in these markets.

The results of our domestic radio operations are heavily dependent on the results of our New York and Los Angeles markets. These markets account for approximately 45% of our domestic radio net revenues. As discussed below, KPWR-FM in Los Angeles exceeded the performance of the overall Los Angeles radio market, but our New York radio cluster trailed the performance of the overall New York radio market.

KPWR-FM in Los Angeles outperformed the overall Los Angeles radio market during the three-month period ended May 31, 2011. For the three-month period ended May 31, 2011, KPWR-FM's gross revenues were up 3.0%, whereas Miller Kaplan reported that Los Angeles radio market total gross revenues were up 2.7% versus the same period of the prior year.

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Our radio cluster in New York trailed the performance of the overall New York radio market during the three-month period ended May 31, 2011. For the three-month period ended May 31, 2011, our New York radio stations' gross revenues were down 7.6%, whereas Miller Kaplan reported that New York radio market total gross revenues were up 0.4% versus the same period of the prior year.

We outpaced market performance in Los Angeles, St. Louis, Indianapolis and Austin, but lagged market performance in New York and Chicago. Revenue performance in Terre Haute is not measured by Miller Kaplan.

As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, Emmis Operating Company's (the Company's principal operating subsidiary, hereinafter "EOC") Credit Agreement substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so. See Note 11 to our condensed consolidated financial statements for a discussion of our pending sale of one of our radio stations in New York and our two radio stations in Chicago.

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.

Allowance for Doubtful Accounts

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

FCC Licenses and Goodwill

We have made acquisitions in the past for which a significant amount of the purchase price was allocated to FCC licenses and goodwill assets. As of May 31, 2011, we have recorded approximately \$353.0 in goodwill and FCC licenses, which represents approximately 75% of our total assets.

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

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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 a Local Marketing Agreement by another broadcaster.

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

Valuation of Indefinite-lived Broadcasting Licenses

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

Valuation of Goodwill

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

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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.

Estimate of Effective Tax Rates

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

Results of Operations for the Three-month Period Ended May 31, 2011, Compared to May 31, 2010**Net revenues:**

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Net revenues:				
Radio	\$ 44,233	\$ 45,370	\$ 1,137	2.6%
Publishing	15,976	15,776	(200)	(1.3)%
 Total net revenues	 \$ 60,209	 \$ 61,146	 \$ 937	 1.6%

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Radio net revenues increased in the three-month period ended May 31, 2011 as compared to the same period of the prior year principally due to improved economic conditions in the markets in which we operate coupled with particularly strong performance by our middle market radio clusters in Indianapolis and Austin. We typically monitor the performance of our domestic stations against the aggregate performance of the markets in which we operate based on reports for the periods prepared by Miller Kaplan. Miller Kaplan reports are generally prepared on a gross revenues basis and exclude revenues from barter arrangements. Miller Kaplan reported gross revenues for our domestic radio markets increased 2.2% for the three-month period ended May 31, 2011 as compared to the same period of the prior year. Our gross revenues as reported to Miller Kaplan increased 3.0% compared to the prior year. Our gross revenues grew more than the market average in our each of our mid-sized markets (St. Louis, Indianapolis and Austin) and in our Los Angeles market. However, as previously discussed, our gross revenues trailed the market average in Chicago and New York. Miller Kaplan does not report gross revenue market data for our Terre Haute market. For the three-month period ended May 31, 2011 as compared to the same period of the prior year, our average rate per minute for our domestic radio stations was up 2.2%, and our minutes sold were up 2.1%.

Publishing net revenues decreased in the three-month period ended May 31, 2011 as compared to the same periods of the prior year as the advertising environment for publications remains challenging. National advertising sales have been stronger than local advertising sales. Consequently, our two largest publications (Texas Monthly and Los Angeles Magazine), which derive a greater percentage of their advertising revenues from national clients, have outperformed our smaller publications, which rely more heavily on advertising from local clients. In addition, Atlanta Magazine and Los Angeles Magazine are celebrating their 50th anniversaries with a number of special events that will help grow revenues.

Station operating expenses, excluding depreciation and amortization expense:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Station operating expenses, excluding depreciation and amortization expense:				
Radio	\$ 33,010	\$ 32,988	\$ (22)	(0.1)%
Publishing	15,867	16,346	479	3.0%
Total station operating expenses, excluding depreciation and amortization expense	\$ 48,877	\$ 49,334	\$ 457	0.9%

Station operating expenses, excluding depreciation and amortization expense, for the three months ended May 31, 2011 were consistent with the prior year for our radio division as reductions in programming costs helped offset increases in healthcare costs and merit raises. Station operating expenses, excluding depreciation and amortization expense, for the three months ended May 31, 2011 for our publishing division increased mainly due to a lease termination payment for the office space of our Texas Monthly publication, coupled with higher paper costs.

We expect that station operating expenses, excluding depreciation and amortization expense, will increase modestly from fiscal 2011.

Corporate expenses, excluding depreciation and amortization expense:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
	\$ 5,178	\$ 7,335	\$ 2,157	41.7%

Corporate expenses excluding depreciation and
amortization expense

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Corporate expenses, excluding depreciation and amortization expense, increased in the three-month period ended May 31, 2011 mostly due to costs incurred by the Company associated with the Third Amendment discussed in Note 9 to the accompanying condensed consolidated financial statements. The Company expensed approximately \$3.0 million of costs associated with the amendment in the three-month period ended May 31, 2011. In the same period of the prior year, the Company incurred \$1.4 million of costs in connection with a potential going private transaction.

Depreciation and amortization:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Depreciation and amortization:				
Radio	\$ 1,918	\$ 1,735	\$ (183)	(9.5)%
Publishing	132	112	(20)	(15.2)%
Corporate	354	264	(90)	(25.4)%
 Total depreciation and amortization	 \$ 2,404	 \$ 2,111	 \$ (293)	 (12.2)%

The decrease in depreciation expense for the three-month period ended May 31, 2011 is attributable to certain assets becoming fully depreciated; thus the Company has ceased to record depreciation expense on those assets.

Operating income:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Operating income (loss):				
Radio	\$ 9,305	\$ 10,650	\$ 1,345	14.5%
Publishing	(23)	(682)	(659)	2,865.2%
Corporate	(5,532)	(7,599)	(2,067)	(37.4)%
 Total operating income:	 \$ 3,750	 \$ 2,369	 \$ (1,381)	 (36.8)%

The decrease in operating income is mostly attributable to the increase in corporate expenses, partially offset by the decrease in depreciation and amortization expense and a modest increase in net revenues as previously discussed.

Interest expense:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Interest expense	\$ 5,680	\$ 7,214	\$ 1,534	27.0%

The increase in interest expense is due to the Third Amendment to our Credit Agreement, which was effective March 29, 2011. Subsequent to the Third Amendment, the interest rate on approximately \$182.9 million of our Credit Agreement debt held by Canyon changed from LIBOR + 4% to a minimum of 12.25% per annum. Also in accordance

with the Third Amendment, the Company now pays an exit fee upon repayment of a portion of our term loans ranging from 3% to 6% of the balance repaid. The Company is accruing this exit fee over the term of the Extended Term Loans as a component of interest expense.

Table of Contents**Loss on debt extinguishment:**

	For the three months ended May 31,		
	2010	2011	\$ Change
	(As reported, amounts in thousands)		
Loss on debt extinguishment	\$	\$ 1,478	\$ 1,478

As discussed above, the Extended Term Loans were deemed to be substantially modified in connection with the Third Amendment and the Company wrote-off \$1.5 million of existing deferred debt issuance costs related to the Extended Term Loans.

Benefit for income taxes:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Benefit for income taxes	\$ (1,444)	\$ (2,742)	\$ (1,298)	(89.9)%

The Company is recording a valuation allowance for most of its deferred tax assets, including its net operating loss carryforwards. Additionally, during the three-month period ended May 31, 2011, the Company recorded a benefit for income taxes of approximately \$0.8 million related to interest rate swap agreements that matured during the period. A full valuation allowance was previously established for the deferred tax asset related to the interest rate swap agreement and was realized during the period. This benefit had previously been recorded in accumulated other comprehensive income (loss) pending the maturity of the swap agreement.

The Company also recorded a benefit from continuing operations to offset the income tax provision recorded in discontinued operations related to the sale of the Flint Peak Tower Site.

(Gain) loss from discontinued operations, net of tax:

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
(Gain) loss from discontinued operations, net of tax	\$ 205	\$ (2,894)	\$ (3,099)	(1,511.7)%

Our Hungarian radio operations and the operations of our Flint Peak Tower Site have been classified as discontinued operations in the accompanying condensed consolidated statements. The increase in income from discontinued operations, net of tax, mostly relates to the gain on sale of the Flint Peak Tower Site.

Table of Contents**Consolidated net loss:**

	For the three months ended May 31,			
	2010	2011	\$ Change	% Change
	(As reported, amounts in thousands)			
Consolidated net loss	\$ (704)	\$ (693)	\$ 11	(1.6%)

Consolidated net loss was consistent between periods as the gain from discontinued operations, most of which related to the gain on sale of the Flint Peak Tower Site, coupled with the increase in the benefit for income taxes, were mostly offset by the loss on debt extinguishment, the increase in interest expense and the increase in corporate expenses, all of which are discussed above.

Liquidity and Capital Resources

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

At May 31, 2011, we had cash and cash equivalents of \$7.2 million and net working capital of \$12.6 million. At February 28, 2011, we had cash and cash equivalents of \$6.1 million and net working capital of \$12.1 million. Cash and cash equivalents held at various European banking institutions at February 28, 2011 and May 31, 2011 was \$5.8 million and \$5.7 million (which includes approximately \$1.7 million of cash related to our Slager discontinued operation which is classified as current assets discontinued operations in the consolidated balance sheets), respectively. Our ability to access our share of these international cash balances (net of noncontrolling interests) is limited by country-specific statutory requirements.

On June 20, 2011, subsidiaries of Emmis, entered into a purchase agreement with GTCR Merlin Holdings, LLC (Merlin Holdings), which will be an affiliate of investment funds managed by GTCR, LLC, and Benjamin L. Homel (aka Randy Michaels) (together, the Investors), pursuant to which Emmis agreed to sell to the Investors a controlling interest in Merlin Media, LLC (Merlin Media), which will own the following radio stations: (i) WKQX-FM, 101.1 MHz, Channel 266, Chicago, IL (FIN 19525), (ii) WRXP-FM, 101.9 MHz, Channel 270, New York, NY (FIN 67846) and (iii) WLUP-FM, 97.9 MHz, Channel 250, Chicago, IL (FIN 73233).

Under the purchase agreement, Emmis may elect at closing to receive aggregate cash proceeds in the transaction of between \$110 million and \$130 million. Upon consummation of the transaction, Emmis will retain equity interests in Merlin Media, the level of which will depend on the aggregate amount of cash proceeds Emmis elects to receive.

The Purchase Agreement contains customary representations, warranties, covenants and indemnities. The proposed transaction is expected to close in the second half of 2011, subject to approval by the Federal Communications Commission and other customary conditions to closing.

In connection with the transaction, Emmis expects to incur approximately \$10 million of expenses, principally consisting of severance, state and local taxes, debt redemption premiums, and professional fees. Net cash proceeds will be used to repay a portion of the term loans outstanding under our credit facility.

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

Operating Activities

Cash used in operating activities was \$1.3 million for the three-month period ended May 31, 2011 versus \$3.0 million in the same period of the prior year. The increase in cash flows from operating activities is mostly due to the receipt of \$0.9 million of LMA fees related to KXOS-FM. We did not receive cash LMA fees in the three months ended May 31, 2010 as LMA fees were prepaid for two years in April 2009. The remainder of the variance relates to other general working capital fluctuations.

Investing Activities

Cash provided by investing activities was \$4.5 million for the three-month period ended May 31, 2011 versus cash used in investing activities of \$0.7 million in the same period of the prior year. During the three-month period ended May 31, 2011, the Company sold its Flint Peak Tower Site for \$5.8 million of net cash proceeds. These proceeds are classified as cash provided by discontinued operations in the accompanying condensed consolidated statements of cash flows. Partially offsetting the net cash proceeds on the sale of the Flint Peak Tower Site for the three months ended May 31, 2011 was approximately \$1.3 million of capital expenditures. In the prior year, the only substantial use of cash was for \$0.6 million of capital expenditures. Investing activities generally include capital expenditures and business acquisitions and dispositions.

We expect capital expenditures related to continuing operations to be approximately \$6.3 million in the current fiscal year, compared to \$4.2 million in fiscal 2011. We expect that future requirements for capital expenditures will include capital expenditures incurred during the ordinary course of business. We expect to fund such capital expenditures with cash generated from operating activities and borrowings under our credit facility.

Financing Activities

Cash used in financing activities was \$2.5 million for the three-month period ended May 31, 2011, versus cash provided by financing activities of \$3.8 million in the same period of the prior year. Cash used in financing activities in the three-month period ended May 31, 2011 primarily relates to the net debt repayments of \$0.5 million under our Credit Agreement, \$0.5 million of debt related costs incurred in connection with the Third Amendment to the Credit Agreement, and \$1.4 million used to pay distributions to noncontrolling interests.

Cash provided by financing activities for the three-month period ended May 31, 2010 primarily relates to the \$5.2 million of net borrowings of debt under our Credit Agreement partially offset by \$1.3 million used to pay cash distributions to noncontrolling interests (\$0.4 million of which is related to Slager and thus classified as discontinued operations).

As of May 31, 2011, Emmis had \$330.5 million of borrowings under the Credit Agreement (\$3.2 million current and \$327.3 million long-term) and \$140.5 million of Preferred Stock outstanding. Approximately \$179.3 million of borrowings under the Credit Agreement bears interest pursuant to a grid under which 7.5% to 12.25% per annum is to be paid in cash and 7.0% to 0.0% per annum is to be paid in kind, subject to a minimum yield of 12.25% per annum. The remainder of the Credit Agreement debt bears interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. As of May 31, 2011, our weighted average borrowing rate under our Credit Agreement was approximately 8.7%.

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The debt service requirements of Emmis over the next twelve-month period are expected to be \$3.2 million for repayment of term notes under our Credit Agreement and a minimum of \$22.0 million related to interest on the Extended Term Loans. The Company may, at its election, choose to pay a portion of the interest due on the Extended Term Loans in-kind. The remainder of the Credit Agreement debt bears interest at variable rates and is not included in the debt service requirements previously discussed.

The terms of Emmis Preferred Stock provide for a quarterly dividend payment of \$.78125 per share on each January 15, April 15, July 15 and October 15. Emmis has not declared a preferred stock dividend since October 15, 2008. As of May 31, 2011, cumulative preferred dividends in arrears total \$23.6 million. Failure to pay the dividend is not a default under the terms of the Preferred Stock. However, since dividends have remain unpaid for more than six quarters, the holders of the Preferred Stock are entitled to elect two persons to our board of directors. The Company has received nominations for these director positions for the 2012 annual meeting of shareholders expected to be held in July 2011. The Third Amendment to our Credit Agreement prohibits the Company from paying dividends on the Preferred Stock during the Suspension Period (as defined in the Credit Agreement) (See Liquidity and Capital Resources). Subject to the restrictions of the Credit Agreement, payment of future preferred stock dividends is at the discretion of the Company s Board of Directors.

At July 7, 2011, we had \$6.4 million available for additional borrowing under our credit facility, which is net of \$0.6 million in outstanding letters of credit. Availability under the credit facility depends upon our continued compliance with certain operating covenants and financial ratios. Emmis was in compliance with these covenants as of May 31, 2011. As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, Emmis Operating Company s Credit Agreement, as amended, substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so. See Note 11 to our condensed consolidated financial statements for a discussion of our pending sale of one of our radio stations in New York and our two radio stations in Chicago.

Intangibles

Approximately 75% of our total assets consisted of intangible assets, such as FCC broadcast licenses, foreign broadcasting licenses, and goodwill, the value of which depends significantly upon the operational results of our businesses. In the case of our U.S. radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future. Our foreign broadcasting licenses expire during periods ranging from December 2021 to February 2026. While all of our international broadcasting license were recently extended, we will need to submit extension applications upon their expiration to continue our broadcast operations in these countries. While we expect to actively seek renewal of our foreign licenses, both of the countries in which we operate do not have the regulatory framework or history that we have with respect to license renewals in the United States. This makes the risk of non-renewal (or of renewal on less favorable terms) of foreign licenses greater than for United States licenses.

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Regulatory, Legal and Other Matters

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

On December 24, 2010, Emmis entered into an agreement with Bose McKinney & Evans, LLP (Bose) and JS Acquisition for the purpose of coordinating the prosecution of certain litigation (the Litigation) by JS Acquisition against Alden Global Distressed Opportunities Master Fund, L.P., Alden Global Value Recovery Master Fund, L.P., and Alden Media Holdings, LLC (collectively, Alden) relating to the going private transaction in which Emmis, JS Acquisition and Alden participated. Under the terms of the agreement, Bose is representing both Emmis and JS Acquisition in connection with the Litigation. Emmis has agreed to initially invest up to \$0.2 million in support of the prosecution of JS Acquisition's claim in exchange for first recoupment of 150% of the amount invested from any JS Acquisition recovery. The investment by Emmis, which is currently included in deposits and other in the accompanying consolidated balance sheets, was unanimously approved by Emmis' Board of Directors, including all of its independent directors. Subsequently, Alden sued each of the directors of Emmis in New York state court alleging breach of fiduciary duty and related claims. Emmis believes the Alden claims are without merit. In addition, on March 21, 2011, Emmis filed suit against Alden in Federal District Court for the Southern District of New York, seeking recoupment of approximately \$0.3 million of short-swing profits under section 16 of the Securities Exchange Act of 1934.

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

Effective December 31, 2009, our radio music license agreements with the two largest performance rights organizations, American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI), expired. The Radio Music License Committee (RMLC), which negotiates music licensing fees for most of the radio industry with ASCAP and BMI and of which we are a participant, filed motions in the U.S. District Court in New York against BMI and ASCAP on behalf of the radio industry, seeking interim fees and a determination of fair and reasonable industry-wide license fees. The U.S. District Court in New York approved reduced interim fees for ASCAP and BMI. The final fees, still to be determined by the court, may be retroactive to January 1, 2010 and may be different from the interim fees.

On October 28, 2009, the Hungarian National Radio and Television Board (ORTT) announced that it was awarding to another bidder the national radio license then held by our majority-owned subsidiary, Slager. Slager ceased broadcasting effective November 19, 2009. We continue to explore European Union and international arbitration fora as we believe the award of the license by the ORTT to the other bidder violated Hungarian law and various bilateral investment treaties.

The Company is a party to various other legal and regulatory proceedings arising in the ordinary course of business. In the opinion of management of the Company, there are no other legal or regulatory proceedings pending against the Company that are likely to have a material adverse effect on the Company.

Table of Contents**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, 2011 our Disclosure Controls are effective to provide reasonable assurance that information relating to Emmis Communications Corporation and Subsidiaries that is required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

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

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

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

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

During the three-month period ended May 31, 2011, there were no repurchases of our Class A common stock or Preferred Stock pursuant to a previously announced share repurchase program by the Company s Board of Directors. There was, however, withholding of shares of stock upon vesting of restricted stock to cover withholding tax obligations. The following table provides information on our repurchases related to the withholding of shares of stock in payment of employee tax obligations upon vesting of restricted stock during the three months ended May 31, 2011:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c)	(d)
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
March 1, 2011 - March 31, 2011	46,469	1.14		\$ 36,150,565
April 1, 2011 - April 30, 2011		N/A		\$ 36,150,565
May 1, 2011 - May 31, 2011		N/A		\$ 36,150,565
	46,469			

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Item 3. Defaults Upon Senior Securities

The terms of Emmis Preferred Stock provide for a quarterly dividend payment of \$.78125 per share on each January 15, April 15, July 15 and October 15. Emmis has not declared a preferred stock dividend since October 15, 2008. As of May 31, 2011, cumulative preferred dividends in arrears total \$23.6 million. Failure to pay the dividend is not a default under the terms of the Preferred Stock. However, since dividends have remain unpaid for more than six quarters, the holders of the Preferred Stock are entitled to elect two persons to our board of directors. The Company has received nominations for these director positions for the 2011 annual meeting of shareholders expected to be held in July 2011.

Item 6. Exhibits

(a) Exhibits.

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

- 2.1 Purchase Agreement, dated June 20, 2011, by and among Emmis Operating Company, Emmis Radio, LLC, Emmis Radio License, LLC, Emmis Radio Holding Corporation, Emmis Radio Holding II Corporation, GTCR Merlin Holdings, LLC and Benjamin L. Homel, incorporated by reference from Exhibit 2.1 to the Company's Form 8-K/A filed June 24, 2011.
- 2.2 Merlin Media, LLC Second Amended and Restated Limited Liability Company Agreement, to be dated as of the Closing Date under the Purchase Agreement by and among Emmis Operating Company, Emmis Radio, LLC, Emmis Radio License, LLC, Emmis Radio Holding Corporation, Emmis Radio Holding II Corporation, GTCR Merlin Holdings, LLC and Benjamin L. Homel, incorporated by reference from Exhibit 2.2 to the Company's Form 8-K/A filed June 24, 2011.
- 3.1 Second Amended and Restated Articles of Incorporation of Emmis Communications Corporation, as amended effective June 13, 2005 incorporated by reference from Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended February 28, 2006.
- 3.2 Second Amended and Restated Bylaws of Emmis Communications Corporation incorporated by reference from Exhibit 3.2 to the Company's Form 8-K filed June 3, 2011.

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- 10.1 Employment Agreement dated as of March 1, 2011, by and between Emmis Operating Company and Richard F. Cummings incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed March 11, 2011.++
- 10.2 Backstop Letter Agreement dated as of March 27, 2011 among Emmis Operating Company, Emmis Communications Corporation and Canyon Capital Advisors, LLC incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed March 30, 2011.
- 10.3 Third Amendment to Amended and Restated Revolving Credit and Term Loan Agreement, incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 30, 2011.
- 10.4 Local Programming and Marketing Agreement, dated as of June 20, 2011, by and among Emmis Radio, LLC, Emmis Radio License, LLC, Merlin Media, LLC and LMA Merlin Media, LLC, incorporated by reference from Exhibit 10.1 to the Company's Form 8-K/A filed June 24, 2011.
- 31.1 Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act.*
- 31.2 Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act.*
- 32.1 Section 1350 Certification of Principal Executive Officer of Emmis Communications Corporation.*
- 32.2 Section 1350 Certification of Principal Financial Officer of Emmis Communications Corporation.*

* Filed with this report.

++ Management contract or compensatory plan or arrangement.

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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 13, 2011

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

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