EMMIS COMMUNICATIONS CORP
Form 10-Q
January 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2015

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

INDIANA
(State of incorporation or organization)
0-23264
(Commission file number)
35-1542018
(I.R.S. Employer Identification No.)
ONE EMMIS PLAZA
40 MONUMENT CIRCLE, SUITE 700
INDIANAPOLIS, INDIANA 46204
(Address of principal executive offices)
(317) 266-0100
(Registrant’s Telephone Number, Including Area Code)
NOT APPLICABLE
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” and “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
The number of shares outstanding of each of Emmis Communications Corporation’s classes of common stock, as of January 4, 2016, was:

41,340,433	Shares of Class A Common Stock, $.01 Par Value
4,569,464	Shares of Class B Common Stock, $.01 Par Value
—	Shares of Class C Common Stock, $.01 Par Value

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2014	2015	2014	2015
NET REVENUES	$62,960	$59,614	$184,508	$180,549
OPERATING EXPENSES:				
Station operating expenses excluding LMA fees of $0, $0, $4,208 and $0, and depreciation and amortization expense of $1,141, $1,276, $2,813 and $3,540, respectively	44,940	43,654	134,159	136,931
Corporate expenses excluding depreciation and amortization expense of $341, $256, $1,613 and $845, respectively	3,241	2,810	11,472	10,116
LMA fees	—	—	4,208	—
Hungary license litigation and related expenses	188	—	472	—
Depreciation and amortization	1,482	1,532	4,426	4,385
Gain on contract settlement	—	—	(2,500)	—
Loss on disposal of assets	3	—	—	—
Total operating expenses	49,854	47,996	152,237	151,432
OPERATING INCOME	13,106	11,618	32,271	29,117
OTHER EXPENSE:				
Interest expense	(5,395)	(4,768)	(11,873)	(14,259)
Loss on debt extinguishment	—	—	(1,455)	—
Other income, net	51	7	230	845
Total other expense	(5,344)	(4,761)	(13,098)	(13,414)
INCOME BEFORE INCOME TAXES	7,762	6,857	19,173	15,703
PROVISION FOR INCOME TAXES	4,528	889	9,080	2,662
CONSOLIDATED NET INCOME	3,234	5,968	10,093	13,041
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	411	420	3,554	1,574
NET INCOME ATTRIBUTABLE TO THE COMPANY	2,823	5,548	6,539	11,467
NET INCOME PER SHARE - BASIC	$0.07	$0.12	$0.15	$0.26
NET INCOME PER SHARE - DILUTED	$0.06	$0.12	$0.14	$0.24
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	42,702	44,400	42,451	43,844
Diluted	47,376	47,504	47,455	47,451

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

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2014	2015	2014	2015
CONSOLIDATED NET INCOME	$3,234	$5,968	$10,093	$13,041
OTHER COMPREHENSIVE INCOME, NET OF TAXES:				
Change in value of derivative instrument and related income tax effects	—	—	99	—
COMPREHENSIVE INCOME	3,234	5,968	10,192	13,041
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	411	420	3,554	1,574
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$2,823	$5,548	$6,638	$11,467

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, 2015	November 30, 2015 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3,669	$4,316
Restricted cash	2,740	2,047
Accounts receivable, net	37,328	40,412
Prepaid expenses	8,640	7,903
Other current assets	3,514	3,806
Total current assets	55,891	58,484
PROPERTY AND EQUIPMENT, NET	34,794	33,488
INTANGIBLE ASSETS (Note 3):		
Indefinite-lived intangibles	210,057	210,569
Goodwill	15,392	15,392
Other intangibles, net	8,178	7,042
Total intangible assets	233,627	233,003
OTHER ASSETS, NET	10,420	10,680
Total assets	$334,732	$335,655

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

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

	February 28, 2015	November 30, 2015 (Unaudited)
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$9,497	$6,898
Current maturities of long-term debt (Note 4)	6,840	13,198
Accrued salaries and commissions	8,241	6,546
Deferred revenue	11,568	10,946
Other current liabilities	6,620	5,929
Total current liabilities	42,766	43,517
LONG-TERM DEBT, NET OF CURRENT MATURITIES (NOTE 4)	254,150	240,117
OTHER NONCURRENT LIABILITIES	8,351	8,007
DEFERRED INCOME TAXES	41,614	44,137
Total liabilities	346,881	335,778
COMMITMENTS AND CONTINGENCIES		
DEFICIT:		
Class A common stock, $.01 par value; authorized 170,000,000 shares; issued and outstanding 39,054,719 shares at February 28, 2015 and 41,114,139 shares at November 30, 2015	391	411
Class B common stock, $.01 par value; authorized 30,000,000 shares; issued and outstanding 4,569,464 shares at February 28, 2015 and November 30, 2015	46	46
Series A non-cumulative convertible preferred stock, $.01 par value; $50.00 liquidation preference per share, aggregate liquidation preference and redemption amount of $46,450 at February 28, 2015 and $43,316 at November 30, 2015; authorized 2,875,000 shares; issued and outstanding 928,991 shares at February 28, 2015 and 866,319 at November 30, 2015	9	9
Additional paid-in capital	585,358	588,714
Accumulated deficit	(644,614)	(633,147)
Total shareholders’ deficit	(58,810)	(43,967)
NONCONTROLLING INTERESTS	46,661	43,844
Total deficit	(12,149)	(123)
Total liabilities and deficit	$334,732	$335,655

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

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EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT
(Unaudited)
(In thousands, except share data)

	Class A Common Stock		Class B Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interests	Total Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, February 28, 2015	39,054,719	$391	4,569,464	$46	928,991	$9	$585,358	$(644,614)	$46,661	$(12,149)
Net income								11,467	1,574	13,041
Issuance of common stock to employees and officers	1,716,501	17					3,223			3,240
Exercise of stock options	190,000	2					133			135
Distributions to noncontrolling interests									(4,391)	(4,391)
Conversion of Series A Preferred Stock to Class A Common Stock	152,919	1			(62,672)					1
Balance, November 30, 2015	41,114,139	$411	4,569,464	$46	866,319	$9	$588,714	$(633,147)	$43,844	$(123)

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

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

	Nine Months Ended November 30,	
	2014	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	$10,093	$13,041
Adjustments to reconcile consolidated net income to net cash provided by operating activities -		
Depreciation and amortization	4,426	4,385
Amortization of deferred financing costs, including original issue discount	858	1,245
Noncash accretion of debt	2,347	557
Loss on debt extinguishment	1,455	—
Provision for bad debts	585	292
Provision for deferred income taxes	8,896	2,523
Noncash compensation	2,128	4,669
Changes in assets and liabilities -		
Restricted cash	(105)	693
Accounts receivable	(11,126)	(3,376)
Prepaid expenses and other current assets	(2,292)	445
Other assets	(792)	(1,216)
Accounts payable and accrued liabilities	(3,135)	(4,294)
Deferred revenue	(613)	(622)
Income taxes	(79)	(12)
Other liabilities	(2,044)	(1,630)
Net cash provided by operating activities	10,602	16,700
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,565)	(1,943)
Cash paid for acquisitions	(57,729)	—
Change in acquisition-related restricted cash	(76,031)	—
Cash paid for investments, net of distributions	(65)	123
Other	3	—
Net cash used in investing activities	$(136,387)	$(1,820)

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

	Nine Months Ended November 30,	
	2014	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	$(74,375)	$(17,022)
Proceeds from long-term debt	212,000	9,000
Debt-related costs	(7,849)	(1,134)
Distributions to noncontrolling interests	(3,987)	(4,391)
Proceeds from the exercise of stock options	377	133
Settlement of tax withholding obligations on stock issued to employees	(1,462)	(819)
Net cash provided by (used in) financing activities	124,704	(14,233)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,081)	647
CASH AND CASH EQUIVALENTS:		
Beginning of period	5,304	3,669
End of period	$4,223	$4,316
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$6,059	$12,567
Cash paid for income taxes, net	243	216
Noncash financing transactions-		
Stock issued to employees and directors	5,037	4,042

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

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS UNLESS INDICATED OTHERWISE, EXCEPT SHARE DATA)
November 30, 2015
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Preparation of Interim Financial Statements

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), the condensed consolidated interim financial statements included herein have been prepared, without audit, by Emmis Communications Corporation ("ECC") and its subsidiaries (collectively, "our," "us," "we," "Emmis" or the "Company"). As permitted under the applicable rules and regulations of the SEC, certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, Emmis believes that the disclosures are adequate to make the information presented not misleading. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Emmis filed on Form 10-K for the year ended February 28, 2015. The Company's results are subject to seasonal fluctuations. Therefore, results shown on an interim basis are not necessarily indicative of results for a full year.

In the opinion of Emmis, the accompanying condensed consolidated interim financial statements contain all material adjustments (consisting only of normal recurring adjustments, except as otherwise noted) necessary to present fairly the consolidated financial position of Emmis at November 30, 2015, and the results of its operations for the three-month and nine-month periods ended November 30, 2014 and 2015, and cash flows for the nine-month periods ended November 30, 2014 and 2015.

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015 that have had a material impact on our condensed consolidated financial statements and related notes.

Basic and Diluted Net Income Per Common Share

Basic net income per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities at November 30, 2014 and 2015 consisted of stock options, restricted stock awards and the 6.25% Series A non-cumulative convertible preferred stock (the "Preferred Stock"). The following table sets forth the calculation of basic and diluted net income per share:

	For the three months ended					
	November 30, 2014			November 30, 2015		
	Net Income	Shares	Net Income Per Share	Net Income	Shares	Net Income Per Share
	(amounts in 000's, except per share data)					
Basic net income per common share:						
Net income available to common shareholders	$2,823	42,702	$0.07	$5,548	44,400	$0.12
Impact of equity awards	—	2,408		—	990	
Impact of conversion of preferred stock into common stock	—	2,266		—	2,114	
Diluted net income per common share:	$2,823	47,376	$0.06	$5,548	47,504	$0.12

Net income available to common shareholders

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	For the nine months ended					
	November 30, 2014			November 30, 2015		
	Net Income	Shares	Net Income Per Share	Net Income	Shares	Net Income Per Share
	(amounts in 000's, except per share data)					
Basic net income per common share:						
Net income available to common shareholders	$6,539	42,451	$ 0.15	$11,467	43,844	$ 0.26
Impact of equity awards	—	2,738	—	—	1,408	—
Impact of conversion of preferred stock into common stock	—	2,266	—	—	2,199	—
Diluted net income per common share:						
Net income available to common shareholders	$6,539	47,455	$ 0.14	$11,467	47,451	$ 0.24

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

	For the three months ended November 30		For the nine months ended November 30	
	2014	2015	2014	2015
	(shares in 000's)			
Equity awards	2,162	5,383	1,627	3,948
Antidilutive common share equivalents	2,162	5,383	1,627	3,948

Local Programming and Marketing Agreement Fees

The Company from time to time enters into local programming and marketing agreements ("LMAs") in connection with acquisitions or dispositions of radio stations, typically pending regulatory approval of transfer of the Federal Communications Commission ("FCC") licenses. Under the terms of these agreements, the acquiring company makes specified periodic payments to the holder of the FCC license in exchange for the right to program and sell advertising for a specified portion of the station's inventory of broadcast time. The acquiring company records revenues and expenses associated with the portion of the station's inventory of broadcast time it manages. Nevertheless, as the holder of the FCC license, the owner-operator retains control and responsibility for the operation of the station, including responsibility over all programming broadcast on the station.

On February 11, 2014, the Company entered into an LMA in connection with its agreement to purchase WBLS-FM and WLIB-AM in New York City from YMF Media New York LLC and YMF Media New York License LLC (collectively, "YMF"). The LMA, which commenced on March 1, 2014, gave Emmis the right to program and sell advertising for the two New York stations. Emmis paid YMF $1.3 million per month and reimbursed YMF for certain monthly expenses through the first closing of the acquisition, which occurred on June 10, 2014. After the first closing, the LMA continued in effect until the second and final closing of the transaction, which occurred on February 13, 2015 at a reduced monthly fee of approximately $0.7 million. During the nine-month period ended November 30, 2014, Emmis recorded $4.2 million of LMA fee expense.

On April 26, 2012, Emmis entered into an LMA with a subsidiary of Disney Enterprises, Inc. for 98.7FM in New York (formerly WRKS-FM and now WEPN-FM, hereinafter referred to as "98.7FM"). The LMA for this station started on April 30, 2012 and will continue until August 31, 2024. Emmis retains ownership and control of the station, including the related FCC license during the term of the LMA and is scheduled to receive an annual fee until the LMA's termination. LMA fee revenue is recorded on a straight-line basis over the term of the LMA as a component of net revenues in our accompanying condensed consolidated statements of operations.

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

	For the three months ended November 30,		For the nine months ended November 30,	
	2014	2015	2014	2015
	(amounts in 000's)			
Net revenues	$2,582	$2,582	$7,748	$7,748
Station operating expenses, excluding LMA Fees and depreciation and amortization expense	270	232	754	748
Interest expense	804	754	2,447	2,302

Assets and liabilities of 98.7FM as of February 28, 2015 and November 30, 2015 were as follows:

	As of February 28,	As of November 30,
	2015	2015
	(amounts in 000's)	
Current assets:		
Restricted cash	$1,467	$1,552
Prepaid expenses	603	553
Total current assets	2,070	2,105
Noncurrent assets:		
Property and equipment, net	—	259
Indefinite lived intangibles	51,063	51,063
Deferred debt issuance costs, net	2,495	2,295
Deposits and other	4,428	5,215
Total noncurrent assets	57,986	58,832
Total assets	$60,056	$60,937
Current liabilities:		
Accounts payable and accrued expenses	$22	$14
Current maturities of long-term debt	4,990	5,336
Deferred revenue	753	779
Other current liabilities	241	228
Total current liabilities	6,006	6,357
Noncurrent liabilities:		
Long-term debt, net of current portion	65,411	61,356
Other noncurrent liabilities	27	—
Total noncurrent liabilities	65,438	61,356
Total liabilities	$71,444	$67,713

Restricted Cash

The Company's restricted cash, included in current assets in the accompanying condensed consolidated balance sheets, totaled $2.7 million and $2.0 million as of February 28, 2015 and November 30, 2015, respectively.

The terms of our 98.7FM non-recourse notes and related agreements discussed in Note 4 restrict a portion of our cash on deposit for specific operating and financing purposes. Restricted cash related to the 98.7FM non-recourse notes and related agreements totaled $1.5 million and $1.6 million as of February 28, 2015 and November 30, 2015, respectively.

In connection with the Company's agreement with Sprint/United Management Company (“Sprint”), the Company collects cash from other participating companies in the radio industry and remits cash collected to Sprint. The entirety of cash collected but not yet remitted to Sprint classified as restricted cash as of February 28, 2015 and November 30, 2015 was $1.3 million and $0.5 million, respectively.

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Recent Accounting Pronouncements

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

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

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. Entities that have historically presented debt issuance costs as an asset, related to a recognized debt liability, will be required to present those costs as a direct deduction from the carrying amount of that debt liability. This presentation will result in debt issuance costs being presented the same way debt discounts have historically been handled. The ASU does not change the recognition, measurement, or subsequent measurement guidance for debt issuance costs. This guidance is effective for the Company as of March 1, 2016 and may be adopted early. The Company expects this new guidance will reduce total assets and total long-term debt on its consolidated balance sheets by amounts classified as deferred debt issuance costs, but does not expect this update to have any other effect on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance as to when a company using a cloud computing service that includes a software license should capitalize and depreciate the software license. This guidance is effective for the Company as of March 1, 2016. The Company is currently evaluating this guidance, but does not anticipate it will have a material impact on its consolidated financial statements.

In September 2015, the FASB issued Accounting Standards Update 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments. This update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in the provisional amount as if the accounting had been completed at the acquisition date. This guidance is effective for the Company as of March 1, 2016. The Company does not anticipate this guidance will have any impact on its consolidated financial statements as the purchase price allocations of the Company's recent business combinations have been finalized.

In November 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes - Balance Sheet Classification of Deferred Taxes. This update simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities to be presented as noncurrent in a classified balance sheet. The Company adopted this update as of September 1, 2015. Adoption of this update did not have any effect on the Company's financial position as the Company did not have any deferred tax assets or liabilities classified as current in any period presented in the accompanying condensed consolidated balance sheets.

Note 2. Share Based Payments

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

Stock Option Awards

The Company has granted options to purchase its common stock to employees and directors of the Company under various stock option plans at no less than the fair market value of the underlying stock on the date of grant. These options are granted for a term not exceeding 10 years and are forfeited, except in certain circumstances, in the event the employee or director terminates his or her employment or relationship with the Company. Generally, these options either vest annually over 3 years (one-third each year for 3 years), or cliff vest at the end of 3 years. The Company issues new shares upon the exercise of stock options.

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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 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 nine months ended November 30, 2014 and 2015:

	Nine Months Ended November 30,	
	2014	2015
Risk-Free Interest Rate:	1.2% - 1.5%	1.3% - 1.4%
Expected Dividend Yield:	0%	0%
Expected Life (Years):	4.3	4.3
Expected Volatility:	69.0% - 73.9%	57.2% - 64.6%

The following table presents a summary of the Company’s stock options outstanding at November 30, 2015, and stock option activity during the nine months ended November 30, 2015 (“Price” reflects the weighted average exercise price per share; "Aggregate Intrinsic Value" dollars in thousands):

	Options	Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of period	5,724,446	$ 1.76		
Granted	1,603,719	2.00		
Exercised (1)	190,000	0.70		
Forfeited	105,000	2.27		
Expired	79,463	11.51		
Outstanding, end of period	6,953,702	1.73	6.6	$ 133
Exercisable, end of period	4,352,115	1.49	5.4	$ 133

(1) Cash received from option exercises for the nine months ended November 30, 2014 and 2015 was $0.4 million and $0.1 million, respectively. The Company recorded an income tax benefit relating to the options exercised during the nine months ended November 30, 2014 of $0.1 million. The Company did not record an income tax benefit relating to the options exercised during the nine months ended November 30, 2015.

The weighted average per share grant date fair value of options granted during the nine months ended November 30, 2014 and 2015, was $1.64 and $1.01, respectively.

A summary of the Company’s nonvested options at November 30, 2015, and changes during the nine months ended November 30, 2015, is presented below:

	Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	3,167,083	$ 1.08
Granted	1,603,719	1.01
Vested	2,064,215	0.90
Forfeited	105,000	1.21
Nonvested, end of period	2,601,587	1.19

There were 2.2 million shares available for future grants under the Company's various equity plans at November 30, 2015. The vesting dates of outstanding options at November 30, 2015 range from February 2016 to July 2018, and expiration dates range from March 2016 to August 2025.

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Restricted Stock Awards

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

The following table presents a summary of the Company's restricted stock grants outstanding at November 30, 2015, and restricted stock activity during the nine months ended November 30, 2015 ("Price" reflects the weighted average share price at the date of grant):

	Awards	Price
Grants outstanding, beginning of period	677,634	$2.26
Granted	2,374,687	1.25
Vested (restriction lapsed)	2,125,293	1.30
Forfeited	15,000	1.82
Grants outstanding, end of period	912,028	1.87

The total grant date fair value of shares vested during the nine months ended November 30, 2014 and 2015, was $3.8 million and $2.8 million, respectively.

Preferred Stock and the 2012 Retention Plan

On April 2, 2012, the shareholders of the Company approved the 2012 Retention Plan and Trust Agreement (the "Trust" or the "2012 Retention Plan") at a special meeting of shareholders. The Company contributed 400,000 shares of its Preferred Stock to the Trust in connection with the approval of the 2012 Retention Plan. Awards granted under the 2012 Retention Plan entitled the participants to receive a distribution two years from the date of shareholder approval of the plan, provided the participant was an employee upon inception of the plan and remained an employee through the vesting date. The Trustee of the plan was Jeffrey H. Smulyan, our Chairman of the Board, President and Chief Executive Officer.

On March 5, 2014, the Board of Directors of the Company approved the exercise of the Company's repurchase option under the Voting and Transfer Restriction Agreement with the Trustee of the 2012 Retention Plan and Trust. Pursuant to the exercise of that option, the Company repurchased 400,000 shares of Preferred Stock from the trustee in exchange for 975,848 shares of the Company's Class A Common Stock. On April 2, 2014, 975,848 shares of Class A Common Stock were distributed to employees who met the vesting requirements of the plan. The Company recognized approximately $0.4 million of compensation expense related to the 2012 Retention Plan during the nine months ended November 30, 2014.

Recognized Non-Cash Compensation Expense

The following table summarizes stock-based compensation expense and related tax benefits recognized by the Company during the three months and nine months ended November 30, 2014 and 2015:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2014	2015	2014	2015
Station operating expenses	$83	$365	$553	$1,610
Corporate expenses	514	539	1,575	3,059
Stock-based compensation expense included in operating expenses	597	904	2,128	4,669
Tax benefit	(300)	—	(821)	—

Recognized stock-based compensation expense, net of tax	$297	$904	$1,307	$4,669

As of November 30, 2015, there was $2.6 million of unrecognized compensation cost, net of estimated forfeitures, related to nonvested share-based compensation arrangements. The cost is expected to be recognized over a weighted average period of approximately 1.8 years.

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Note 3. Intangible Assets and Goodwill

Valuation of Indefinite-lived Broadcasting Licenses

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

The carrying amounts of the Company's FCC licenses were $210.1 million and $210.6 million as of February 28, 2015 and November 30, 2015. Pursuant to Emmis' accounting policy, stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under an LMA with another broadcaster. The Company generally performs its annual impairment test of indefinite-lived intangibles as of December 1 of each year. When indicators of impairment are present, the Company will perform an interim impairment test. During the quarter ended November 30, 2015, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. These impairment tests may result in impairment charges in future periods.

Fair value of our FCC licenses is estimated to be the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. To determine the fair value of our FCC licenses, the Company uses an income valuation method when it performs its impairment tests. Under this method, the Company projects cash flows that would be generated by each of its units of accounting assuming the unit of accounting was commencing operations in its respective market at the beginning of the valuation period. This cash flow stream is discounted to arrive at a value for the FCC license. The Company assumes the competitive situation that exists in each market remains unchanged, with the exception that its unit of accounting commenced operations at the beginning of the valuation period. In doing so, the Company extracts the value of going concern and any other assets acquired, and strictly values the FCC license. Major assumptions involved in this analysis include market revenue, market revenue growth rates, unit of accounting audience share, unit of accounting revenue share and discount rate. Each of these assumptions may change in the future based upon changes in general economic conditions, audience behavior, consummated transactions, and numerous other variables that may be beyond our control. When evaluating our radio broadcasting licenses for impairment, the testing is performed at the unit of accounting level as determined by ASC Topic 350-30-35. In our case, radio stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under an LMA.

Valuation of Goodwill

ASC Topic 350-20-35 requires the Company to test goodwill for impairment at least annually using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of impairment. The Company conducts the two-step impairment test on December 1 of each fiscal year, unless indications of impairment exist during an interim period. During the quarter ended November 30, 2015, 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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The following table summarizes the Company's goodwill by segment as of February 28, 2015 and November 30, 2015.

	As of February 28, 2015	As of November 30, 2015
Radio	$4,603	$4,603
Publishing	8,036	8,036
Corporate & Emerging Technologies	2,753	2,753
Total Goodwill	$15,392	$15,392

Definite-lived intangibles

The Company’s definite-lived intangible assets consist of patents, customer lists, trademarks and a syndicated programming contract, all of which are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company’s future cash flows. The following table presents the weighted-average useful life, gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at February 28, 2015 and November 30, 2015:

		As of February 28, 2015 (in 000's)			As of November 30, 2015		
	Weighted Average Remaining Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	6.8	$1,240	$ 585	$655	$1,240	$ 691	$549
Patents	5.7	5,180	401	4,779	5,180	956	4,224
Customer lists	1.6	1,015	205	810	1,015	459	556
Programming agreement	5.8	2,154	220	1,934	2,154	441	1,713
TOTAL		$9,589	$ 1,411	$8,178	$9,589	$ 2,547	$7,042

Total amortization expense from definite-lived intangibles for the three-month and nine-month periods ended November 30, 2014 was $0.4 million and $0.5 million, respectively. Total amortization expense from definite-lived intangibles for the three-month and nine-month periods ended November 30, 2015 was $0.4 million and $1.1 million, respectively. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles:

Year ended February 28 (29),	Expected Amortization Expense (in 000's)
2016	1,514
2017	1,514
2018	1,255
2019	1,076
2020	1,076

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Note 4. Long-term Debt

Long-term debt was comprised of the following at February 28, 2015 and November 30, 2015:

	February 28, 2015	November 30, 2015
2014 Credit Agreement debt :		
Revolver	$8,000	$6,000
Term Loan	185,000	182,687
Total 2014 Credit Agreement debt	193,000	188,687
98.7FM non-recourse debt	70,401	66,692
Digonex non-recourse debt [1]	3,971	4,528
Less: Current maturities	(6,840)	(13,198)
Less: Unamortized original issue discount of Credit Agreement debt	(6,382)	(6,592)
Total long-term debt	$254,150	$240,117

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

2014 Credit Agreement

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

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

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

The Term Loan is due not later than June 10, 2021 and initially amortized in an amount equal to 1% per annum (subsequently amended, see below) of the original principal amount of the Term Loan, payable in quarterly installments commencing April 1, 2015, with the balance payable on the maturity date. The revolving credit facility expires not later than June 10, 2019. An unused commitment fee of 50 basis points per annum will be payable quarterly on the average unused amount of the revolving credit facility. Prior to the amendments to the 2014 Credit Agreement discussed below, the Term Loan and amounts borrowed under the revolving credit facility bore interest, at the Borrower’s option, at either (i) the Alternate Base Rate (as defined in the 2014 Credit Agreement) (but not less than 2.00%) plus 3.75% or (ii) the Adjusted LIBO Rate (as defined in the 2014 Credit Agreement) (but not less than 1.00%) plus 4.75%.

Approximately $1.0 million of transaction fees related to the 2014 Credit Agreement were capitalized and are being amortized over the life of the 2014 Credit Agreement. These deferred debt costs are included in other assets, net in the condensed consolidated balance sheets. The 2014 Credit Agreement is carried on our condensed consolidated balance sheets net of an original issue discount. The original issue discount, which was $6.1 million as of the issuance of the debt on June 10, 2014 and $6.6 million as of November 30, 2015 (inclusive of the $1.0 million and $1.1 million of transaction fees associated with our First Amendment to the 2014 Credit Agreement and Second Amendment to the 2014 Credit Agreement, respectively, discussed below), is being amortized as additional interest expense over the life of the 2014 Credit Agreement.

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

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

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

We were in compliance with all financial and non-financial covenants as of November 30, 2015. Our Total Leverage Ratio and Interest Coverage Ratio (each as defined in the 2014 Credit Agreement) requirements and actual amounts as of November 30, 2015 were as follows:

	As of November 30, 2015	
	Covenant Requirement	Actual Results
Maximum Total Leverage Ratio	6.75 : 1.00	5.47 : 1.00
Minimum Interest Coverage Ratio	2.00 : 1.00	2.61 : 1.00

98.7FM Non-recourse Debt

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

Digonex Non-recourse Debt

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

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Based on amounts outstanding at November 30, 2015, mandatory principal payments of long-term debt for the next five
years and thereafter are summarized below:

Year Ended	2014 Credit Agreement			Digonex	Total
February 28 (29),	Revolver	Term Loan	98.7FM Debt	Notes payable	Payments
2016	$—	$925	$1,281	$—	$2,206
2017	—	9,250	5,453	—	14,703
2018	—	9,250	6,039	6,199	21,488
2019	—	9,250	6,587	—	15,837
2020	6,000	9,250	7,150	—	22,400
Thereafter	—	144,762	40,182	—	184,944
Total	$6,000	$182,687	$66,692	$6,199	$261,578

Note 5. Liquidity

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2016 with cash and cash equivalents on hand and projected cash flows from operations. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2016.

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, 2015 and November 30, 2015. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

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	As of November 30, 2015			
	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(in 000's)			
Available for sale securities	$—	$—	$500	$500
Total assets measured at fair value on a recurring basis	$—	$—	$500	$500

	As of February 28, 2015			
	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(in 000's)			
Available for sale securities	$—	$—	$500	$500
Total assets measured at fair value on a recurring basis	$—	$—	$500	$500

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

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

	For the Nine Months Ended November 30,	
	2014	2015
	Available For Sale Securities	Available For Sale Securities
Beginning Balance	$6,750	$500
Purchases	—	—
Ending Balance	$6,750	$500

Non-Recurring Fair Value Measurements

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

Fair Value of Other Financial Instruments

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

The estimated fair value of financial instruments is determined using the best available market information and appropriate valuation methodologies. Considerable judgment is necessary, however, in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company

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could realize in a current market exchange, or the value that ultimately will be realized upon maturity or disposition. The use of different market assumptions may have a material effect on the estimated fair value amounts.
The following methods and assumptions were used to estimate the fair value of financial instruments:
- Cash and cash equivalents: The carrying amount of these assets approximates fair value because of the short maturity of these instruments.
- 2014 Credit Agreement debt: As of November 30, 2015, the fair value and carrying value, excluding original issue discount, of the Company's 2014 Credit Agreement debt was $164.2 million and $188.7 million, respectively. The Company's estimate of fair value was based on quoted prices of this instrument and is considered a Level 2 measurement.
- Other long-term debt: The Company’s 98.7FM non-recourse debt and Digonex non-recourse debt is not actively traded and is considered a level 3 measurement. The Company believes the current carrying value of its other long-term debt approximates its fair value.

Note 7. Segment Information
The Company’s operations are aligned into three business segments: (i) Radio, (ii) Publishing and (iii) Corporate & Emerging Technologies. Emerging Technologies includes our TagStation, NextRadio and Digonex businesses. These business segments are consistent with the Company’s management of these businesses and its financial reporting structure. Corporate expenses are not allocated to reportable segments. The Company’s segments operate exclusively in the United States. Beginning in the quarter ended August 31, 2014, the Company reports results of its Emerging Technologies activities with its Corporate activities. Results from Emerging Technologies were reclassified from the Radio segment in the prior periods presented below and are not material.
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, 2015, and in Note 1 to these condensed consolidated financial statements, are applied consistently across segments.

Three Months Ended November 30, 2015	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	42,634	16,658	322	$59,614
Station operating expenses excluding and depreciation and amortization expense	27,352	14,310	1,992	43,654
Corporate expenses excluding depreciation and amortization expense	—	—	2,810	2,810
Depreciation and amortization	934	68	530	1,532
Operating income (loss)	$14,348	$2,280	$(5,010)	$11,618

Three Months Ended November 30, 2014	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	44,905	17,906	149	$62,960
Station operating expenses excluding LMA fees and depreciation and amortization expense	28,683	15,005	1,252	44,940
Corporate expenses excluding depreciation and amortization expense	—	—	3,241	3,241
Hungary license litigation and related expenses	188	—	—	188
Depreciation and amortization	806	62	614	1,482
Loss on disposal of fixed assets	3	—	—	3
Operating income (loss)	$15,225	$2,839	$(4,958)	$13,106

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Nine Months Ended November 30, 2015	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	132,789	46,775	985	$180,549
Station operating expenses excluding depreciation and amortization expense	87,925	43,557	5,449	136,931
Corporate expenses excluding depreciation and amortization expense	—	—	10,116	10,116
Depreciation and amortization	2,528	192	1,665	4,385
Operating income (loss)	$42,336	$3,026	$(16,245)	$29,117

Nine Months Ended November 30, 2014	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	137,493	46,697	318	$184,508
Station operating expenses excluding LMA fees and depreciation and amortization expense	87,213	44,458	2,488	134,159
Corporate expenses excluding depreciation and amortization expense	—	—	11,472	11,472
LMA fees	4,208	—	—	4,208
Hungary license litigation and related expenses	472	—	—	472
Depreciation and amortization	2,315	180	1,931	4,426
Gain on contract settlement	(2,500)	—	—	(2,500)
Operating income (loss)	$45,785	$2,059	$(15,573)	$32,271

Total Assets	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
As of February 28, 2015	$282,653	$21,622	$30,457	$334,732
As of November 30, 2015	$284,771	$22,472	$28,412	$335,655

Note 8. Regulatory, Legal and Other Matters

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

Emmis and certain of its officers and directors were named as defendants in a lawsuit filed April 16, 2012 by certain holders of Preferred Stock (the “Lock-Up Group”) in the United States District Court for the Southern District of Indiana entitled Corre Opportunities Fund, LP, et al. v. Emmis Communications Corporation, et al (the "Lawsuit"). The plaintiffs alleged, among other things, that Emmis and the other defendants violated various provisions of the federal securities laws and breached fiduciary duties in connection with Emmis’ entry into total return swap agreements and voting agreements with certain holders of Emmis Preferred Stock, as well as by issuing shares of Preferred Stock to Emmis’ 2012 Retention Plan and Trust (the “Trust”) and entering into a voting agreement with the trustee of the Trust. The plaintiffs also alleged that Emmis violated certain provisions of Indiana corporate law by directing the voting of the shares of Preferred Stock subject to the total return swap agreements (the “Swap Shares”) and the shares of Preferred Stock held by the Trust (the “Trust Shares”) in favor of certain amendments to Emmis’ Articles of Incorporation.

Emmis filed an answer denying the material allegations of the complaint, and filed a counterclaim seeking a declaratory judgment that Emmis could legally direct the voting of the Swap Shares and the Trust Shares in favor of the proposed amendments.

On August 31, 2012, the U.S. District Court denied the plaintiffs' request for a preliminary injunction. Plaintiffs subsequently filed an amended complaint seeking monetary damages and dismissing all claims against the individual officer and director defendants. On February 28, 2014, the U.S. District Court issued a ruling in favor of Emmis on all counts. In March 2014, the Plaintiffs filed with the U.S. Court of Appeals for the Seventh Circuit an appeal of the U.S. District Court's decision. The U.S. Court of Appeals for the Seventh Circuit heard oral arguments in this case on December 5, 2014, and on July 2, 2015, unanimously affirmed the U.S. District Court's ruling.

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On December 4, 2015, Emmis entered into a settlement agreement with the Lock-Up Group to settle any and all remaining issues with respect to the Lawsuit described above. Under the terms of the settlement agreement, (i) the Company is withdrawing its bill of costs with respect to certain reimbursable expenses in the Lawsuit; (ii) the Company agreed to submit to a vote of its shareholders, and the Lock-Up Group and Jeffrey H. Smulyan agreed to vote in favor of, an amendment to Exhibit A to the Company's Second Amended and Restated Articles of Incorporation (the "Terms") to amend the terms of the Company's Series A Non-Cumulative Convertible Preferred Stock (the "Preferred Stock") to (A) change the voluntary conversion ratio to permit holders of Preferred Stock to convert their shares of Preferred Stock into Class A Common Stock at a ratio of 2.80 shares of the Company's Class A Common Stock for each share of Preferred Stock, and (B) provide that all shares of Preferred Stock shall automatically convert into shares of Class A Common Stock at a ratio of 2.80 shares of Class A Common Stock for each share of Preferred Stock on the fifth business day after the delisting of the Preferred Stock by The NASDAQ Stock Market LLC ("Nasdaq"); and (iii) both the Company and the Lock-Up Group will release each other from claims related to the Lawsuit. Under the current Terms, the Preferred Stock is voluntarily convertible into shares of Class A Common Stock at a ratio of 2.44 shares of Class A Common Stock for each class of Preferred Stock, and there is no provision for mandatory conversion. Additionally, the Preferred Stock is subject to a deficiency notice from Nasdaq and is expected to be delisted after February 17, 2016 assuming the preferred stock continues to not meet the Nasdaq standards for continued listing (see Note 10 for more discussion). The value associated with the increase to the conversion ratio will be accounted for upon the effective date of the amendment to the Terms, which is expected to occur during the quarter ending February 29, 2016, and is expected to result in a decrease of approximately $0.2 million to earnings available to common shareholders.

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

Certain groups and individuals have challenged an application for renewal of one of Company's FCC licenses. This challenge is currently pending before the FCC. Emmis does not expect the challenge to result in the denial of our license renewal.

Note 9. Income Taxes

Our effective income tax rate was 47% for the nine months ended November 30, 2014. Our effective tax rate was higher than our estimated annual effective tax rate of 34% as a discrete expense was recorded during the period. This expense related to the effect of increasing our statutory rate by 1% on existing deferred tax liabilities due to changes in state tax laws and changes in our income apportionments as a result of the WBLS-FM and WLIB-AM LMA and related acquisition. This discrete expense is partially offset during the nine months ended November 30, 2014 by a discrete benefit related to the loss on debt extinguishment the Company recorded during the period.

Our effective income tax rate was 17% for the nine months ended November 30, 2015. The Company recorded a valuation allowance for its net deferred tax assets generated during the period, including its net operating loss carryforwards, but excluding deferred tax liabilities related to indefinite-lived intangibles.

Note 10. Other Significant Events

Emmis made additional $1.0 million investments in Digonex Technologies, Inc. in the form of convertible debt on both April 21, 2015 and September 30, 2015. Subsequent to its investment in September 2015, Emmis owns rights that are convertible into approximately 75% of the common equity of Digonex. As Emmis controls and consolidates Digonex, this investment is eliminated in consolidation.

On July 27, 2015, NextRadio LLC entered into an agreement with AT&T whereby AT&T agreed to include FM chip activation in its Android device specifications to wireless device manufacturers. In exchange, AT&T will receive a share of certain revenue generated by the NextRadio application.

On August 21, 2015, the Company received a notification from the Listing Qualifications Department of Nasdaq indicating that the Company's Series A preferred stock was not in compliance with Nasdaq Listing Rule 5450(a)(2) (the “Minimum Market Value Rule”) because the Market Value of Publicly Held Shares (as defined by Nasdaq, "MVPHS") of our Preferred Stock was under $1 million. In accordance with Nasdaq Listing Rule 5810(c)(3)(D), the Company has 180 calendar

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days, or until February 17, 2016, to regain compliance with the requirements under the Minimum Market Value Rule. If, at any time before that date the MVPHS of the Series A preferred stock equals or exceeds $1 million (based on closing bid price) for a minimum of ten consecutive days, Nasdaq will notify the Company that it has achieved compliance with the Minimum Market Value Rule. If the Company does not regain compliance with the Minimum Market Value Rule prior to the end of the 180 day period, Nasdaq will notify the Company that its Preferred Stock will be delisted from the Nasdaq Global Select Market. Nasdaq rules would then permit the Company to appeal any delisting determination by the Nasdaq staff to a Listing Qualifications Panel. The Company does not expect to achieve compliance with the Minimum Market Value Rule and does not intend to appeal a delisting determination with respect to its Preferred Stock.

Note 11. Subsequent Event

On December 7, 2015, the Company received a notification from the Listing Qualifications Department of Nasdaq indicating that the Company's Class A common stock was not in compliance with Markeplace Rule 5450(a)(1) (the “Minimum Bid Price Rule”) because the minimum bid price of the Company's Class A common stock on the Nasdaq Global Select Market closed below $1.00 per share for 30 consecutive business days. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has 180 calendar days, or until June 6, 2016, to regain compliance with the requirements under the Rule. If, at any time before that date the bid price of the Company's Class A common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, Nasdaq will notify the Company that it has achieved compliance with the Rule. If the Company does not regain compliance with the Minimum Bid Price Rule prior to the end of the 180 day period, Nasdaq will notify the Company that its Class A common stock will be delisted from the Nasdaq Global Select Market. Nasdaq rules would then permit the Company to appeal any delisting determination by the Nasdaq staff to a Listing Qualifications Panel. The Company intends to actively evaluate and monitor the bid price for its Class A common stock between now and June 6, 2016, and consider implementation of a reverse stock split if its Class A common stock does not trade at a level that regains compliance.

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

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

- general economic and business conditions;
- fluctuations in the demand for advertising and demand for different types of advertising media;
- our ability to service our outstanding debt;
- competition from new or different media and technologies;
- loss of key personnel;
- increased competition in our markets and the broadcasting industry, including our competitors changing the format of a station they operate to more directly compete with a station we operate in the same market;
- our ability to attract and secure programming, on-air talent, writers and photographers;
- inability to obtain (or to obtain timely) necessary approvals for purchase or sale transactions or to complete the transactions for other reasons generally beyond our control;
- increases in the costs of programming, including on-air talent;
- fluctuations in the market price of publicly traded and other securities;
- new or changing regulations of the Federal Communications Commission or other governmental agencies;

- changes in radio audience measurement methodologies;
- war, terrorist acts or political instability; and other factors mentioned in other documents filed by the Company with the Securities and Exchange Commission.

For a more detailed discussion of these and other risk factors, see the Risk Factors section of our Annual Report on Form 10-K, for the year ended February 28, 2015. Emmis does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise.

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GENERAL

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

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

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

The following table summarizes the sources of our revenues for the three-month and nine-month periods ended November 30, 2014 and 2015. The category "Non Traditional" principally consists of ticket sales and sponsorships of events our stations and magazines conduct in their local markets. Growth within the Non Traditional category during the nine-month period ended November 30, 2015 mostly relates to increased revenues associated with Summer Jam, our annual hip-hop festival held in New York in June. The category "Other" includes, among other items, revenues related to our TagStation and Digonex businesses, network revenues and barter.

	Three Months Ended November 30,						Nine Months Ended November 30,					
	2014	% of Total		2015	% of Total		2014	% of Total		2015	% of Total	
	(Dollars in thousands)											
Net revenues:												
Local	$32,883	52.2	%	$31,592	53.0	%	$100,192	54.3	%	$96,430	53.4	%
National	10,836	17.2	%	9,680	16.2	%	28,392	15.4	%	26,575	14.7	%
Political	677	1.1	%	186	0.3	%	1,363	0.7	%	468	0.3	%
Publication Sales	1,572	2.5	%	1,419	2.4	%	4,607	2.5	%	4,187	2.3	%
Non Traditional	5,764	9.2	%	5,664	9.5	%	19,025	10.3	%	21,059	11.7	%
LMA Fees	2,583	4.1	%	2,582	4.3	%	7,749	4.2	%	7,748	4.3	%
Digital	3,379	5.4	%	3,444	5.8	%	10,192	5.5	%	10,195	5.6	%
Other	5,266	8.3	%	5,047	8.5	%	12,988	7.1	%	13,887	7.7	%
Total net revenues	$62,960			$59,614			$184,508			$180,549		

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 nine-month period ended November 30, 2015, local sales, excluding political revenues, represented approximately 82% and 65% 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 60% and 61% of our radio division's total advertising net revenues for the nine-month periods ended November 30, 2014 and 2015, respectively. The automotive industry was the largest category for our radio division for the nine-month periods ended November 30, 2014 and 2015, representing approximately 12% of our radio net revenues.

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

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KNOWN TRENDS AND UNCERTAINTIES

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

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

On August 9, 2013, NextRadio LLC, a wholly-owned subsidiary of Emmis, entered into an agreement with Sprint whereby Sprint agreed to pre-load the Company's NextRadio smartphone application in a minimum of 30 million FM-enabled wireless devices on the Sprint wireless network over a three-year period. In return, NextRadio LLC agreed to serve as a conduit for the radio industry to pay Sprint $15 million per year in equal quarterly installments over the three year term and to share with Sprint certain revenue generated by the NextRadio application. NextRadio LLC collects money from the radio industry and forwards it to Sprint. During the nine months ended November 30, 2014 and 2015, Emmis' funding of NextRadio's payment to Sprint was $0.4 million and $0.3 million, respectively. These amounts are included in station operating expenses in the accompanying condensed consolidated statements of operations. Emmis has not guaranteed NextRadio LLC's performance under this agreement and Sprint does not have recourse to any Emmis related entity other than NextRadio LLC. Additionally, the agreement does not limit the ability of NextRadio LLC to place the NextRadio application on FM-enabled devices on other wireless networks. Through November 30, 2015, the NextRadio application had not generated a material amount of revenue.

During the three months ended November 30, 2015, NextRadio LLC remitted $1.4 million of the $3.8 million due to Sprint for the ninth quarterly installment. On December 16, 2015, NextRadio LLC remitted the remaining $2.4 million of the ninth quarterly installment to Sprint. However, the tenth quarterly installment, or $3.8 million, remains outstanding. NextRadio LLC is in discussions with other radio broadcasters and companies involved in the radio industry to fund the remaining amounts due to Sprint.

On July 27, 2015, NextRadio LLC entered into an agreement with AT&T whereby AT&T agreed to include FM chip activation in its Android device specifications to wireless device manufacturers. In exchange, AT&T will receive a share of certain revenue generated by the NextRadio application. In August 2015, T-Mobile expressed its intent to include FM chip activation in its device specifications. NextRadio LLC and T-Mobile are working together to formalize this business relationship. Beginning in 2016, BLU Products, an American mobile phone manufacturer, will start installing the NextRadio application as the native FM tuner for all its new Android devices. The radio industry continues to work with other leading United States wireless network providers, device manufacturers, regulators and legislators to cause FM tuners to be enabled in all smartphones.

Emmis granted the U.S. radio industry (as defined in the funding agreements) a call option on substantially all of the assets used in the NextRadio and TagStation businesses in the United States. The call option may be exercised in

August 2017 or August 2019 by paying Emmis a purchase price equal to the greater of (i) the appraised fair market value of the NextRadio and TagStation businesses, or (ii) two times Emmis' cumulative investments in the development of the businesses. If the call option is exercised, the businesses will continue to be subject to the operating limitations applicable today, and no radio operator will be permitted to own more than 30% of the NextRadio and TagStation businesses.

Along with the rest of the radio industry, the majority of our stations have deployed HD Radio®. HD Radio offers listeners advantages over standard analog broadcasts, including improved sound quality and additional digital channels. In addition to offering secondary channels, the HD Radio spectrum allows broadcasters to transmit other forms of data. We are

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participating in a joint venture with other broadcasters to provide the bandwidth that a third party uses to transmit location-based data to hand-held and in-car navigation devices. The number of radio receivers incorporating HD Radio has increased in the past year, particularly in new automobiles. It is unclear what impact HD Radio will have on the markets in which we operate.

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

The results of our radio operations are heavily dependent on the results of our stations in the New York and Los Angeles markets. These markets account for approximately 50% of our radio net revenues. Our acquisition of WBLS-FM and WLIB-AM in New York in fiscal 2015 enhanced our ability to adapt to competitive environment shifts in that market, but our single station in the Los Angeles market, KPWR-FM, has less ability to adapt. Furthermore, some of our competitors that operate larger station clusters in New York and Los Angeles are able to leverage their market share to extract a greater percentage of available advertising revenue through packaging a variety of advertising inventory at discounted unit rates and may be able to realize operating efficiencies by programming multiple stations in these markets. In February 2015, one of our large competitors changed the format of one of its radio stations in the Los Angeles radio market to more directly compete with our radio station in Los Angeles. In addition, the new station hired our former KPWR-FM morning radio host to be its morning radio host. This development in Los Angeles has negatively impacted our financial performance in fiscal 2016 and we expect this to continue into fiscal 2017.

Both the Los Angeles and New York radio markets remain weak, down 1.3% and 3.2%, respectively, for the nine months ended November 30, 2015 as compared to the same period of the prior year, according to Miller Kaplan Arase LLP ("Miller Kaplan"), an independent public accounting firm used by the radio industry to compile revenue information. During the same period, KPWR-FM in Los Angeles lagged the Los Angeles radio market due to the introduction of a new format competitor, as discussed above, while our New York cluster, which includes WQHT-FM, WBLS-FM and WLIB-AM, slightly underperformed the New York radio market.

As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, Emmis' 2014 Credit Agreement substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

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

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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 November 30, 2015, we have recorded approximately $226.0 million in goodwill and FCC licenses, which represents approximately 67% of our total assets.

In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future. We consider our FCC licenses to be indefinite-lived intangibles.

We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired. When evaluating our radio broadcasting licenses for impairment, the testing is performed at the unit of accounting level as determined by Accounting Standards Codification ("ASC") Topic 350-30-35. In our case, radio stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under an LMA by another broadcaster. Major assumptions involved in the valuation of our FCC licenses include market revenue, market revenue growth rates, unit of accounting audience share, unit of accounting revenue share and discount rate. Each of these assumptions may change in the future based upon changes in general economic conditions, audience behavior, consummated transactions, and numerous other variables that may be beyond our control. A change in one or more of our major assumptions could result in an impairments charge related to our FCC Licenses.

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

Valuation of Indefinite-lived Broadcasting Licenses

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

Valuation of Goodwill

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

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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.

Insurance Claims and Loss Reserves

The Company is self-insured for most healthcare claims, subject to stop-loss limits. Claims incurred but not reported are recorded based on historical experience and industry trends, and accruals are adjusted when warranted by changes in facts and circumstances. The Company had $0.8 million and $0.7 million accrued for employee healthcare claims as of February 28, 2015 and November 30, 2015, respectively. The Company also maintains large deductible programs (ranging from $100 thousand to $250 thousand per occurrence) for workers' compensation, employment liability, automotive liability and media liability claims.

Results of Operations for the Three-month and Nine-month Periods Ended November 30, 2015, Compared to November 30, 2014

Net revenues:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Net revenues:								
Radio	$44,905	$42,634	$(2,271)	(5.1)%	$137,493	$132,789	$(4,704)	(3.4)%
Publishing	17,906	16,658	(1,248)	(7.0)%	46,697	46,775	78	0.2%
Emerging Technologies	149	322	173	116.1%	318	985	667	209.7%
Total net revenues	$62,960	$59,614	$(3,346)	(5.3)%	$184,508	$180,549	$(3,959)	(2.1)%

Radio net revenues decreased during the three-month and nine-month periods ended November 30, 2015 due to general declines in radio revenues in the markets where we operate radio stations, coupled with a new format competitor for our station in Los Angeles that began directly competing against us in February 2015. We typically monitor the performance of our 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 and syndication arrangements. Miller Kaplan reported gross revenues for our radio markets decreased 2.2% for the nine-month period ended November 30, 2015 as compared to the same period of the prior year. Our gross revenues, as reported to Miller Kaplan, decreased 3.9% for the nine-month period ended November 30, 2015 as compared to the same period of the prior year. For the nine-month period ended November 30, 2015, our performance exceeded the market average in Indianapolis and St. Louis, but we lagged the market average in New York, Los Angeles and Austin. Miller Kaplan does not report gross revenue market data for our Terre Haute market. For the nine-month period ended November 30, 2015, as compared to the same period of the prior year, our average rate per minute for our domestic radio stations was down 2.6%, and our minutes sold were down 1.7%. Publishing net revenues decreased during the three-month period ended November 30, 2015. Net revenues of our largest magazine, Texas Monthly, were down approximately 13% during the quarter. This weakness aligns with a slowdown we saw

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in the Austin radio market during the quarter. Publishing net revenues for the nine-month period ended November 30, 2015 were flat as strong performance by the division in general, and Texas Monthly in particular, during the first two quarters were offset by weakness in the third quarter.
Emerging technologies net revenues primarily relates to licensing fees of our TagStation software and pricing services provided by Digonex. We acquired a controlling interest in Digonex in the second quarter of fiscal 2015. TagStation supplements radio broadcasts with visual content (e.g., album art, artist information, etc.) and enhanced ads for display on NextRadio-enabled devices. The increase in emerging technologies net revenues for the three-month period ended November 30, 2015 is mostly due to revenue growth of Digonex. The increase in emerging technologies net revenues for the nine-month period ended November 30, 2015 is due to additional stations that have licensed the TagStation software and Digonex revenues, a portion of which is due to the inclusion of Digonex net revenues in our consolidated results for only a portion of the prior year as Emmis acquired its controlling interest in Digonex on June 16, 2014.

Station operating expenses excluding LMA fees and depreciation and amortization expense:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Station operating expenses excluding LMA fees and depreciation and amortization expense:								
Radio	$28,683	$27,352	$(1,331)	(4.6)%	$87,213	$87,925	$712	0.8%
Publishing	15,005	14,310	(695)	(4.6)%	44,458	43,557	(901)	(2.0)%
Emerging Technologies	1,252	1,992	740	59.1%	2,488	5,449	2,961	119.0%
Total station operating expenses excluding LMA fees and depreciation and amortization expense	$44,940	$43,654	$(1,286)	(2.9)%	$134,159	$136,931	$2,772	2.1%

The decrease in station operating expenses, excluding LMA fees and depreciation and amortization expense, for our radio division for the three-month period ended November 30, 2015 is mostly due to lower variable costs associated with the decline in radio net revenues, coupled with general cost reduction efforts. The increase in station operating expenses, excluding LMA fees and depreciation expense during the nine-month period ended November 30, 2015 is principally due to the following: (1) the nonrecurring nature of certain performance-based royalty income related to the WBLS-FM and WLIB-AM acquisition that was recognized in the prior year, (2) higher ratings expense associated with a long-term agreement with Nielsen signed in the second quarter of the prior fiscal year, (3) increased marketing expenses in Los Angeles to combat a new format competitor, and (4) legal expenses in Los Angeles associated with litigation against our former radio morning show host. These increases in station operating expenses, excluding LMA fees and depreciation and amortization expense are partially offset by lower variable costs associated with the decline in radio net revenues and the general cost reduction efforts discussed above.
Station operating expenses excluding depreciation and amortization expense for publishing decreased during the three-month and nine-month periods ended November 30, 2015 primarily due to lower magazine production costs and, in the case of the three-month period, lower variable costs associated with the decline in publishing net revenues.
Station operating expenses excluding depreciation and amortization expense for emerging technologies increased during the three-month period ended November 30, 2015 mostly due to increased work on enhancements to

TagStation and NextRadio in anticipation of heightened activity as we expect an increase in FM-enabled smartphones in future periods. Station operating expenses excluding depreciation and amortization expense for emerging technologies increased during the nine-month period ended November 30, 2015 due to additional NextRadio operating expenses, as previously discussed, and expenses of Digonex, which was acquired in the second quarter of the prior fiscal year and only included in our consolidated results for a portion of the nine months ended November 30, 2014.

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Corporate expenses excluding depreciation and amortization expense:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Corporate expenses excluding depreciation and amortization expense	$3,241	$2,810	$(431)	(13.3)%	$11,472	$10,116	$(1,356)	(11.8)%

Corporate expenses excluding depreciation and amortization expense decreased during the three-month period ended November 30, 2015 mostly due to a decrease in discretionary spending as a result of declining operating income. Corporate expenses excluding depreciation and amortization expense decreased during the nine-month period ended November 30, 2015 mostly due to lower legal fees associated with our preferred stock litigation coupled with reduced discretionary spending.

LMA fees:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
LMA fees	$—	$—	$—	— %	$4,208	$—	$(4,208)	(100.0)%

On February 11, 2014, the Company entered into an LMA in connection with its agreement to purchase WBLS-FM and WLIB-AM in New York City from YMF Media New York LLC and YMF Media New York License LLC (collectively, "YMF"). The LMA, which commenced on March 1, 2014, gave Emmis the right to program and sell advertising for the two New York stations. Emmis paid YMF $1.3 million per month and reimbursed YMF for certain monthly expenses. The monthly LMA fee decreased to approximately $0.74 million after the first closing of the purchase of the stations, which occurred on June 10, 2014, and ceased effective with the second closing on February 13, 2015. The LMA fees paid after the first closing were recognized as a liability as of the date of purchase of the stations on June 10, 2014. Accordingly, LMA fees incurred after June 10, 2014 did not impact our results of operations.

Hungary license litigation and related expenses:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Hungary license litigation and related expenses	$188	$—	$(188)	(100.0)%	$472	$—	$(472)	(100.0)%

On October 28, 2009, the Hungarian National Radio and Television Board (ORTT) announced that it was awarding to another bidder the national radio license then held by our majority-owned subsidiary, Slager. Slager ceased broadcasting effective November 19, 2009. The Company believed that the awarding of the license to the other bidder was unlawful. In October 2011, Emmis filed for arbitration with the International Centre for Settlement of Investment Disputes (“ICSID”) seeking resolution of its claim. In April 2014, the ICSID arbitral tribunal ruled that ICSID did not have the jurisdiction to hear the merits of Emmis' claim. We sold our Hungarian legal entities in October 2014 for a nominal amount and liquidated our Dutch holding companies in December 2014. We do not expect future Hungary license litigation expenses.

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Depreciation and amortization:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Depreciation and amortization:								
Radio	$806	$934	$128	15.9 %	$2,315	$2,528	$213	9.2 %
Publishing	62	68	6	9.7 %	180	192	12	6.7 %
Corporate & Emerging Technologies	614	530	(84)	(13.7)%	1,931	1,665	(266)	(13.8)%
Total depreciation and amortization	$1,482	$1,532	$50	3.4 %	$4,426	$4,385	$(41)	(0.9)%

The increase in Radio depreciation and amortization expense is mostly related to our prior year acquisition of WBLS-FM and WLIB-AM. The decrease in Corporate & Emerging Technologies is mostly due to certain computer equipment and software becoming fully depreciated in fiscal 2015. This decrease in Corporate and Emerging Technologies depreciation and amortization is partially offset by the amortization of Digonex intangibles, which we began consolidating in June 2014.

Gain on contract settlement:

	For the Three Months Ended November 30,			For the Nine Months Ended November 30,		
	2014	2015	$ Change	2014	2015	$ Change
	(As reported, amounts in thousands)					
Gain on contract settlement	$—	$—	$—	$2,500	$—	$(2,500)

Emmis and YMF Media executed an amendment to their Asset Purchase Agreement dated April 5, 2012 relating to Emmis' sale of the intellectual property of WRKS-FM by Emmis to YMF Media. The amendment, executed on June 10, 2014, fixed all future earn-out payments YMF Media owed to Emmis pursuant to the April 5, 2012 Asset Purchase Agreement based upon the parties' estimate of the earn-out payments that would otherwise be owed to Emmis under this pre-existing contractual relationship. Emmis recognized a gain on settlement of the contract of $2.5 million.

Operating income:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Operating income:								
Radio	$15,225	$14,348	$(877)	(5.8)%	$45,785	$42,336	$(3,449)	(7.5)%
Publishing	2,839	2,280	(559)	(19.7)%	2,059	3,026	967	47.0 %
Corporate & Emerging Technologies	(4,958)	(5,010)	(52)	(1.0)%	(15,573)	(16,245)	(672)	(4.3)%
Total operating income:	$13,106	$11,618	$(1,488)	(11.4)%	$32,271	$29,117	$(3,154)	(9.8)%

Radio operating income decreased in the three-month period ended November 30, 2015 mostly due to lower revenues which are partially offset by lower station operating expenses. Radio operating income decreased in the nine-month period ended November 30, 2015 as a result of the nonrecurring gain on contract settlement, lower revenues and higher station operating expenses. This is partially offset by the elimination of LMA fees, which terminated with the Company's acquisition of WBLS-FM and WLIB-AM in the second fiscal quarter of the prior year.

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Publishing operating income decreased during the three-month period ended November 30, 2015 mostly due to net revenue declines of our largest magazine, Texas Monthly. Publishing operating income increased during the nine-month period ended November 30, 2015 mostly due to lower magazine production costs.
Corporate and emerging technologies operating loss was flat for the three-month period ended November 30, 2015. The increase in operating loss for the nine-month period ended November 30, 2015 was mostly due to the losses of Digonex, which was acquired in June 2014 and only consolidated for a portion of the nine-month period in the prior year.
Interest expense:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Interest expense	$(5,395)	$(4,768)	$627	(11.6)%	$(11,873)	$(14,259)	$(2,386)	20.1 %

The increase in interest expense is attributable to additional debt incurred to finance our acquisition of WBLS-FM and WLIB-AM in June 2014 and higher interest rates on amounts borrowed. The weighted-average interest rate of debt outstanding under our 2014 Credit Agreement was 7.0% at November 30, 2015. The weighted-average interest rate of debt outstanding under our 2012 Credit Agreement was 4.3% prior to its retirement on June 10, 2014.

Loss on debt extinguishment:

	For the Three Months Ended November 30,			For the Nine Months Ended November 30,		
	2014	2015	$ Change	2014	2015	$ Change
	(As reported, amounts in thousands)					
Loss on debt extinguishment	$—	$—	$—	$(1,455)	$—	$1,455

The loss on debt extinguishment relates to the write-off of unamortized deferred debt issuance costs and original issue discount related to our 2012 Credit Agreement that was retired on June 10, 2014.

Provision for income taxes:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Provision for income taxes	$4,528	$889	$(3,639)	(80.4)%	$9,080	$2,662	$(6,418)	(70.7)%

The Company now records a valuation allowance for its net deferred tax assets, including its net operating loss carryforwards, but excluding deferred tax liabilities related to indefinite-lived intangibles. The provision associated with deferred tax liabilities related to indefinite-lived intangibles is estimated to be approximately $3.4 million in the fiscal year ending February 2016.

During the three-month and nine-month periods ended November 30, 2014, the Company was not recording a valuation allowance. Our effective income tax rate for the nine-month period ended November 30, 2014 was 47%, which was higher than our estimated annual effective tax rate of 34% as a discrete tax expense was recorded during the period. This expense related to the effect of increasing our statutory rate by 1% on existing deferred tax liabilities due to changes in state tax laws and changes in our income apportionments as a result of the WBLS-FM and WLIB-AM LMA and related acquisition. This discrete expense is partially offset during the nine months ended November 30, 2014 by a discrete benefit related to the loss on debt extinguishment the Company recorded during the period.

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Consolidated net income:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2014	2015	$ Change	% Change	2014	2015	$ Change	% Change
	(As reported, amounts in thousands)							
Consolidated net income	$3,234	$5,968	$2,734	84.5 %	$10,093	$13,041	$2,948	29.2 %

Consolidated net income for the three-month and nine-month periods ended November 30, 2015 increased due lower tax expense which was partially offset by lower operating income.

Liquidity and Capital Resources

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

At November 30, 2015, we had cash and cash equivalents of $4.3 million and net working capital of $15.0 million. At February 28, 2015, we had cash and cash equivalents of $3.7 million and net working capital of $13.1 million. The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2016 with cash and cash equivalents on hand and projected cash flows from operations. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2016.

In an effort to improve liquidity and provide additional debt covenant compliance cushion, the Company has implemented a series of personnel and non-personnel expense reductions. The Company estimates that these actions will result in approximately $7.5 million of savings in fiscal 2017, as compared to fiscal 2016. Approximately $5.3 million of these savings relates to our radio division, approximately $1.5 million relates to our publishing division, and approximately $0.7 million relates to corporate. These actions were implemented subsequent to November 30, 2015 and resulted in severance charges of approximately $1.3 million.

Effective December 21, 2015, the Company completed a reorganization that allows it to exclude, on a pro forma basis, the operating results of TagStation/NextRadio from Consolidated EBITDA (as defined in the Credit Agreement), a metric used in the calculation of certain of our debt covenants. Furthermore, the assets and stock of TagStation and NextRadio are not collateral under the Credit Agreement.

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

On August 21, 2015, we received a notification from the Listing Qualifications Department of Nasdaq indicating that the Company's Series A preferred stock was not in compliance with Nasdaq Listing Rule 5450(a)(2) (the “Minimum Market Value Rule”) because the Market Value of Publicly Held Shares (as defined by Nasdaq) of our Preferred Stock was under $1 million. On December 7, 2015, the Company received a notification from the Listing Qualifications Department of Nasdaq indicating that the Company's Class A common stock was not in compliance with Markeplace Rule 5450(a)(1) (the “Minimum Bid Price Rule”) because the minimum bid price of the Company's Class A common stock on the Nasdaq Global Select Market closed below $1.00 per share for 30 consecutive business days. In accordance with Marketplace Rules 5810(c)(3)(A) and 5810(c)(3)(D), the Company has 180 calendar days, or until February 17, 2016 for our Preferred Stock and June 6, 2016 for our Class A common stock, to regain compliance with the Minimum Market Value Rule and Minimum Bid Price Rule, respectively. During the 180 day period, the Company’s Class A common stock and Preferred Stock will continue to trade on the Nasdaq Global Select Market.

If the Company does not regain compliance prior to the end of the respective 180 day periods, Nasdaq will notify the Company that the applicable security will be delisted from the Nasdaq Global Select Market. Nasdaq rules would then permit the Company to appeal any delisting determination by the Nasdaq staff to a Listing Qualifications Panel. The Company does not expect to achieve timely compliance with the Minimum Market Value Rule and does not expect to appeal a delisting determination with respect to the Preferred Stock. On December 4, 2015, the Company entered into an agreement with the holders of more than 80% of its outstanding Preferred Stock under which the Preferred Stock is to be automatically converted into Class A common stock shortly after the Preferred Stock is delisted. A delisting of our Class A common stock from the Nasdaq Global Select Market could negatively impact us by, among other things, reducing the liquidity and market price of our common stock. The Company intends to actively evaluate and monitor the bid price for its Class A common stock between now and June 6, 2016, and consider implementation of a reverse stock split if its Class A common stock does not trade at a level that regains compliance.

Operating Activities

Cash provided by operating activities was $10.6 million and $16.7 million for the nine months ended November 30, 2014 and 2015, respectively. The increase in cash provided by operating activities is mostly due to additional cash provided by working capital driven by better accounts receivable collections in the current year.

Investing Activities

Cash used in investing activities was $136.4 million and $1.8 million for the nine months ended November 30, 2014 and 2015, respectively. Cash used in investing activities during the nine months ended November 30, 2014 mostly related to the $133.8 million acquisition of WBLS-FM and WLIB-AM in New York. During the nine months ended November 30, 2015, the Company spent approximately $1.9 million on capital expenditures versus $2.6 million in the same period of the prior year. We expect capital expenditures to be approximately $3.7 million in the current fiscal year, compared to $3.5 million in fiscal 2015. We expect that future requirements for capital expenditures will be limited to capital expenditures incurred during the ordinary course of business. We expect to fund future investing activities with cash generated from operating activities and borrowings under our 2014 Credit Agreement.

Financing Activities

Cash provided by financing activities was $124.7 million for the nine months ended November 30, 2014 versus cash used in financing activities of $14.2 million for the nine months ended November 30, 2015. During the nine months ended November 30, 2014, the company refinanced its debt in connection with its acquisition of WBLS-FM and WLIB-AM in New York, resulting in net debt borrowings of $137.6 million during the period. Partially offsetting the net debt borrowings in the prior year were payments of $7.8 million for debt-related costs, $4.0 million for distributions to noncontrolling interests and $1.5 million for tax withholding settlements on stock issued to employees. Cash used in financing activities in the nine months ended November 30, 2015 relates to net repayments of debt of $8.0 million, $4.4 million of distributions paid to noncontrolling interests, $1.1 million of debt-related costs and $0.8 million of tax withholding settlements on stock issued to employees.

As of November 30, 2015, Emmis had $188.7 million of borrowings under the 2014 Credit Agreement, $72.9 million ($66.7 million related to 98.7FM in New York and $6.2 million related to Digonex) of non-recourse debt and $43.3 million of Preferred Stock liquidation preference. Borrowings under the 2014 Credit Agreement bear interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. As of November 30, 2015, our weighted average borrowing rate under our 2014 Credit Agreement was approximately 7.0%. The non-recourse debt related to 98.7FM in New York bears interest at 4.1% per annum and the non-recourse debt related to Digonex bears interest at 5.0% per annum.

The debt service requirements of Emmis over the next twelve-month period are expected to be $21.1 million related to our 2014 Credit Agreement, as amended, ($7.9 million of principal repayments and $13.2 million of interest payments) and $7.9 million related to our 98.7FM non-recourse debt ($5.3 million of principal repayments and $2.6 million of interest payments). There are no debt service requirements of our Digonex non-recourse debt until the debt matures in December 2017. The Company expects that proceeds from the 98.7FM LMA will be sufficient to pay all debt service related to the 98.7FM non-recourse debt. The 2014 Credit Agreement debt bears interest at variable rates. The Company estimated interest payments for the 2014 Credit Agreement above by using the amounts outstanding under the 2014 Credit Agreement as of November 30, 2015 and the weighted average interest rate as of the same date.

At January 4, 2016, we had $14.0 million available for additional borrowing under our credit agreement. No letters of credit were outstanding. Availability under the credit agreement depends upon our continued compliance with certain operating covenants and financial ratios. Emmis was in compliance with these covenants as of November 30, 2015.

As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, the 2014 Credit Agreement substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so.

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Intangibles

As of November 30, 2015, approximately 67% of our total assets consisted of FCC broadcast licenses and goodwill, the values of which depend significantly upon various factors including, among other things, market revenues, market growth rates and the operational results of our businesses. In the case of our U.S. radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at or after the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future.

Regulatory, Legal and Other Matters

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

Emmis and certain of its officers and directors were named as defendants in a lawsuit filed April 16, 2012 by certain holders of Preferred Stock (the "Lock-Up Group") in the United States District Court for the Southern District of Indiana entitled Corre Opportunities Fund, LP, et al. v. Emmis Communications Corporation, et al. The plaintiffs alleged, among other things, that Emmis and the other defendants violated various provisions of the federal securities laws and breached fiduciary duties in connection with Emmis' entry into total return swap agreements and voting agreements with certain holders of Emmis Preferred Stock, as well as by issuing shares of Preferred Stock to Emmis' 2012 Retention Plan and Trust (the "Trust") and entering into a voting agreement with the trustee of the Trust. The plaintiffs also alleged that Emmis violated certain provisions of Indiana corporate law by directing the voting of the shares of Preferred Stock subject to the total return swap agreements (the "Swap Shares") and the shares of Preferred Stock held by the Trust (the "Trust Shares") in favor of certain amendments to Emmis' Articles of Incorporation. Emmis filed an answer denying the material allegations of the complaint, and filed a counterclaim seeking a declaratory judgment that Emmis could legally direct the voting of the Swap Shares and the Trust Shares in favor of the proposed amendments.

On August 31, 2012, the U.S. District Court denied the plaintiffs' request for a preliminary injunction. Plaintiffs subsequently filed an amended complaint seeking monetary damages and dismissing all claims against the individual officer and director defendants. On February 28, 2014, the U.S. District Court issued a ruling in favor of Emmis on all counts. In March 2014, the Plaintiffs filed with the U.S. Court of Appeals for the Seventh Circuit an appeal of the U.S. District Court's decision. The U.S. Court of Appeals for the Seventh Circuit heard oral arguments in this case on December 5, 2014, and on July 2, 2015, unanimously affirmed the U.S. District Court's ruling.

On December 4, 2015, Emmis entered into a settlement agreement with the Lock-Up Group to settle any and all remaining issues with respect to the Lawsuit described above. Under the terms of the settlement agreement, (i) the Company is withdrawing its bill of costs with respect to certain reimbursable expenses in the Lawsuit; (ii) the Company agreed to submit to a vote of its shareholders, and the Lock-Up Group and Jeffrey H. Smulyan agreed to vote in favor of, an amendment to Exhibit A to the Company's Second Amended and Restated Articles of Incorporation (the "Terms") to amend the terms of the Company's Series A Non-Cumulative Convertible Preferred Stock (the "Preferred Stock") to (A) change the voluntary conversion ratio to permit holders of Preferred Stock to convert their shares of Preferred Stock into Class A Common Stock at a ratio of 2.80 shares of the Company's Class A Common Stock for each share of Preferred Stock, and (B) provide that all shares of Preferred Stock shall automatically convert into shares of Class A Common Stock at a ratio of 2.80 shares of Class A Common Stock for each share of Preferred Stock on the fifth business day after the delisting of the Preferred Stock by The NASDAQ Stock Market LLC ("Nasdaq"); and (iii) both the Company and the Lock-Up Group will release each other from claims related to the Lawsuit. Under the current Terms, the Preferred Stock is voluntarily convertible into shares of Class A Common Stock at a ratio of 2.44 shares of Class A Common Stock for each class of Preferred Stock, and there is no provision for mandatory conversion. Additionally, the Preferred Stock is subject to a deficiency notice from Nasdaq and is expected to be delisted after February 17, 2016 assuming the Preferred Stock continues to not meet the Nasdaq standards for continued listing. The value associated with the increase to the conversion ratio will be accounted for upon the effective date of the amendment to the Terms, which is expected to occur during the quarter ending February

29, 2016, and is expected to result in a decrease of approximately $0.2 million to earnings available to common shareholders.

On July 7, 2014, individuals who had been seeking to overturn the FCC's approval of the transfer of the broadcast licenses for WBLS-FM and WLIB-AM from entities associated with Inner City Broadcasting to YMF (the entities that subsequently sold the two stations to Emmis) filed with the U.S. Court of Appeals for the District of Columbia Circuit a Notice of Appeal of the FCC's approval of the transfer. Additionally, in March 2015, an individual filed a lawsuit in the Federal

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District Court of New York challenging the transfer of the assets of WBLS-FM and WLIB-AM from Inner City to YMF, and claimed that Emmis had exerted undue influence in securing the FCC's consent to the transfer of the FCC licenses of WBLS-FM and WLIB-AM from YMF to Emmis. Based upon the facts alleged in the cases and the extensive precedent of courts not overturning FCC approvals of transfers of broadcast licenses except in exceedingly rare circumstances, Emmis believes the appeal and the claims in the lawsuit are without merit.

Certain groups and individuals have challenged an application for renewal of one of Company's FCC licenses. This challenge is currently pending before the FCC. Emmis does not expect the challenge to result in the denial of our license renewal.

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 November 30, 2015 our Disclosure Controls are effective to provide reasonable assurance that information relating to Emmis Communications Corporation and Subsidiaries that is required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Please refer to Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended February 28, 2015 for information regarding known material risks that could affect our results of operations, financial condition and liquidity. These known risks have not changed materially, except as described below. In addition to these risks, other risks that we presently do not consider material, or other unknown risks, could materially adversely impact our business, financial condition and results of operations in future periods.

Our stock may cease to be listed on the National Association of Securities Dealers Automated Quotation (Nasdaq) Global Select Market.

Our Class A common stock and our Series A preferred stock are currently listed on the Nasdaq Global Select Market under the symbols “EMMS” and "EMMSP," respectively. On August 21, 2015, we received a notification from the Listing

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Qualifications Department of Nasdaq indicating that our Preferred Stock was not in compliance with Nasdaq Listing Rule 5450(a)(2) (the “Minimum Market Value Rule”) because the Market Value of Publicly Held Shares (as defined by Nasdaq, "MVPHS") of our Preferred Stock was under $1 million. On December 7, 2015, we received a notification from the Listing Qualifications Department of Nasdaq indicating that our Class A common stock was not in compliance with Markeplace Rule 5450(a)(1) (the “Minimum Bid Price Rule”) because the minimum bid price of our Class A common stock on the Nasdaq Global Select Market closed below $1.00 per share for 30 consecutive business days.

In accordance with Marketplace Rules 5810(c)(3)(A) and 5810(c)(3)(D), the Company has 180 calendar days, or until February 17, 2016 for our Preferred Stock and June 6, 2016 for our Class A common stock, to regain compliance with the Minimum Market Value Rule and Minimum Bid Price Rule, respectively. During the 180 day period, the Class A common stock and Preferred Stock will continue to trade on the Nasdaq Global Select Market.

If the Company does not regain compliance prior to the end of the respective 180 day periods, Nasdaq will notify us that the applicable security will be delisted from the Nasdaq Global Select Market. Nasdaq rules would then permit us to appeal any delisting determination by the Nasdaq staff to a Listing Qualifications Panel. A delisting of our Preferred Stock is currently expected and, upon its occurrence, assuming certain proposed amendments to the terms of the Preferred Stock are duly adopted by shareholders at a special meeting to be held February 17, 2016, will result in the automatic conversion of the Preferred Stock into Class A common stock at a conversion ratio of 2.80 shares of Class A common stock for each share of Preferred Stock. A delisting of our Class A common stock from the Nasdaq Global Select Market could negatively impact us by, among other things, reducing the liquidity and market price of our common stock. There can be no assurance that we will be able to comply with the Minimum Bid Price Rule, or any other requirement in the future.

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

During the three months ended November 30, 2015, there was withholding of shares of common stock upon vesting of restricted stock to cover withholding tax obligations. The following table provides information on our repurchases during the three months ended November 30, 2015:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in 000’s)
Class A Common Stock				
September 1, 2015 - September 30, 2015	68,459	$1.29	—	$—
October 1, 2015 - October 31, 2015	117,431	$1.15	—	$—
November 1, 2015 - November 30, 2015	93,793	$0.95	—	$—
	279,683		—	

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Item 6. Exhibits

(a) Exhibits.

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

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form	Period Ending	Exhibit	Filing Date
3.1	Second Amended and Restated Articles of Incorporation of Emmis Communications Corporation, as amended effective September 4, 2012		10-Q	8/31/2012	3.1	10/11/2012
3.2	Second Amended and Restated Bylaws of Emmis Communications Corporation		10-K	2/28/2013	3.2	5/8/2013
4.1	Form of stock certificate for Class A common stock		S-1		3.5	12/22/1993
31.1	Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act	X				
31.2	Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act	X				
32.1	Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				

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SIGNATURES

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

	EMMIS COMMUNICATIONS CORPORATION
Date: January 7, 2016	By: /s/ RYAN A. HORNADAY
	Ryan A. Hornaday
	Executive Vice President, Chief Financial Officer and Treasurer