
**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, 2018

EMMIS COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State of incorporation or organization)

0-23264

(Commission file number)

35-1542018

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

ONE EMMIS PLAZA

40 MONUMENT CIRCLE, SUITE 700

INDIANAPOLIS, INDIANA 46204

(Address of principal executive offices)

(317) 266-0100

(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company) Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

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

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The number of shares outstanding of each of Emmis Communications Corporation's classes of common stock, as of January 3, 2019, was:

11,779,513	Shares of Class A Common Stock, \$.01 Par Value
1,242,366	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,	
	2017	2018	2017	2018
NET REVENUES	\$ 35,345	\$ 30,323	\$ 118,357	\$ 90,385
OPERATING EXPENSES:				
Station operating expenses excluding depreciation and amortization expense of \$700, \$612, \$2,195 and \$1,793, respectively	27,986	23,971	93,120	71,505
Corporate expenses excluding depreciation and amortization expense of \$180, \$194, \$544 and \$591, respectively	2,500	2,297	7,781	7,607
Depreciation and amortization	880	806	2,739	2,384
Loss (gain) on sale of assets, net of disposition costs	46	235	(76,660)	(31,817)
Loss on disposal of property and equipment	1	57	13	57
Total operating expenses	31,413	27,366	26,993	49,736
OPERATING INCOME	3,932	2,957	91,364	40,649
OTHER EXPENSE:				
Interest expense	(3,000)	(1,546)	(12,214)	(5,902)
Loss on debt extinguishment	(139)	—	(2,662)	(771)
Other income, net	10	40	24	92
Total other expense	(3,129)	(1,506)	(14,852)	(6,581)
INCOME BEFORE INCOME TAXES	803	1,451	76,512	34,068
PROVISION (BENEFIT) FOR INCOME TAXES	371	(98)	4,743	7,848
CONSOLIDATED NET INCOME	432	1,549	71,769	26,220
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	711	837	2,358	2,396
NET (LOSS) INCOME ATTRIBUTABLE TO THE COMPANY	\$ (279)	\$ 712	\$ 69,411	\$ 23,824
NET (LOSS) INCOME PER SHARE - BASIC	\$ (0.02)	\$ 0.06	\$ 5.63	\$ 1.90
NET (LOSS) INCOME PER SHARE - DILUTED	\$ (0.02)	\$ 0.05	\$ 5.53	\$ 1.77
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	12,347	12,609	12,321	12,565
Diluted	12,347	13,425	12,554	13,486

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

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2017	2018	2017	2018
CONSOLIDATED NET INCOME	\$ 432	\$ 1,549	\$ 71,769	\$ 26,220
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	711	837	2,358	2,396
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (279)</u>	<u>\$ 712</u>	<u>\$ 69,411</u>	<u>\$ 23,824</u>

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

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

	February 28, 2018	November 30, 2018 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,107	\$ 8,616
Restricted cash	2,008	1,359
Accounts receivable, net	20,594	21,563
Prepaid expenses	3,234	3,901
Assets held for sale	26,170	—
Other current assets	3,680	1,538
Total current assets	<u>59,793</u>	<u>36,977</u>
PROPERTY AND EQUIPMENT, NET	26,601	23,869
INTANGIBLE ASSETS (NOTE 3):		
Indefinite-lived intangibles	170,890	170,890
Goodwill	4,338	4,338
Other intangibles, net	1,053	833
Total intangible assets	<u>176,281</u>	<u>176,061</u>
OTHER ASSETS, NET	8,469	8,899
Total assets	<u>\$ 271,144</u>	<u>\$ 245,806</u>

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

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except share data)

	February 28, 2018	November 30, 2018 (Unaudited)
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 6,394	\$ 5,406
Current maturities of long-term debt	16,037	35,006
Accrued salaries and commissions	3,541	2,882
Deferred revenue	4,030	3,793
Other current liabilities	2,695	12,544
Total current liabilities	32,697	59,631
LONG-TERM DEBT, NET OF CURRENT MATURITIES AND UNAMORTIZED DISCOUNT (NOTE 4)	122,849	50,362
OTHER NONCURRENT LIABILITIES	5,932	6,250
DEFERRED INCOME TAXES	31,403	27,677
Total liabilities	192,881	143,920
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Class A common stock, \$.01 par value; authorized 42,500,000 shares; issued and outstanding 11,649,440 shares at February 28, 2018 and 11,777,013 shares at November 30, 2018	116	118
Class B common stock, \$.01 par value; authorized 7,500,000 shares; issued and outstanding 1,142,366 shares at February 28, 2018 and 1,242,366 at November 30, 2018	11	12
Additional paid-in capital	594,708	595,900
Accumulated deficit	(547,252)	(523,428)
Total shareholders' equity	47,583	72,602
NONCONTROLLING INTERESTS	30,680	29,284
Total equity	78,263	101,886
Total liabilities and equity	\$ 271,144	\$ 245,806

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

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

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount				
Balance, February 28, 2018	11,649,440	\$ 116	1,142,366	\$ 11	\$ 594,708	\$ (547,252)	\$ 30,680	\$ 78,263
Net income						23,824	2,396	26,220
Issuance of common stock to employees and officers	(14,095)	—	100,000	1	849			850
Exercise of stock options	141,668	2			343			345
Distributions to noncontrolling interests							(3,792)	(3,792)
Balance, November 30, 2018	11,777,013	\$ 118	1,242,366	\$ 12	\$ 595,900	\$ (523,428)	\$ 29,284	\$ 101,886

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

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Dollars in thousands)

	Nine Months Ended November 30,	
	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$ 71,769	\$ 26,220
Adjustments to reconcile consolidated net income to net cash used in operating activities -		
Gain on sale of assets, net of disposition costs	(76,660)	(31,817)
Depreciation and amortization	2,739	2,384
Amortization of debt discount	2,011	1,000
Noncash accretion of debt	474	62
Loss on debt extinguishment	2,662	771
Impairment of long-lived assets	—	509
Provision for bad debts	743	684
Provision for deferred income taxes	1,881	(3,726)
Noncash compensation	2,016	1,288
Loss on disposal of property and equipment	13	57
Changes in assets and liabilities -		
Accounts receivable	2,467	(1,653)
Prepaid expenses and other current assets	576	786
Other assets	(483)	(429)
Accounts payable and accrued liabilities	(11,521)	(3,578)
Deferred revenue	109	335
Income taxes	(129)	10,046
Other liabilities	(2,092)	141
Net cash (used in) provided by operating activities	(3,425)	3,080
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,191)	(155)
Proceeds from the sale of assets	80,130	60,171
Net cash provided by investing activities	78,939	60,016

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Dollars in thousands)

Nine Months Ended November 30,
2017 2018

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on long-term debt	(98,281)	(57,850)
Proceeds from long-term debt	20,690	2,500
Debt-related costs	(1,636)	—
Distributions to noncontrolling interests	(3,556)	(3,792)
Proceeds from the exercise of stock options	131	343
Settlement of tax withholding obligations on stock issued to employees	(275)	(437)
Net cash used in financing activities	<u>(82,927)</u>	<u>(59,236)</u>
(DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(7,413)	3,860

CASH, CASH EQUIVALENTS AND RESTRICTED CASH:

Beginning of period	13,672	6,115
End of period	<u>\$ 6,259</u>	<u>\$ 9,975</u>

SUPPLEMENTAL DISCLOSURES:

Cash paid for interest	\$ 10,558	\$ 4,464
Cash paid for (refund from) income taxes, net	2,178	(467)
Noncash financing transactions-		
Stock issued to employees and directors	2,016	1,288

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, 2018

(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, 2018. 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, 2018, the results of its operations for the three-month and nine-month periods ended November 30, 2017 and 2018, and cash flows for the nine-month periods ended November 30, 2017 and 2018.

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, 2018 that have had a material impact on our condensed consolidated financial statements and related notes.

Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) 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 (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities at November 30, 2017 and 2018 consisted of stock options and restricted stock awards. The following table sets forth the calculation of basic and diluted net income (loss) per share:

	For the three months ended					
	November 30, 2017			November 30, 2018		
	Net Loss	Shares	Net Loss Per Share	Net Income	Shares	Net Income Per Share
	(amounts in 000’s, except per share data)					
Basic net income (loss) per common share:						
Net income (loss) available to common shareholders	\$ (279)	12,347	\$ (0.02)	\$ 712	12,609	\$ 0.06
Impact of equity awards	—	—		—	816	
Diluted net income (loss) per common share:						
Net income (loss) available to common shareholders	\$ (279)	12,347	\$ (0.02)	\$ 712	13,425	\$ 0.05

	For the nine months ended					
	November 30, 2017			November 30, 2018		
	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	\$ 69,411	12,321	\$ 5.63	\$ 23,824	12,565	\$ 1.90
Impact of equity awards	—	233	—	—	921	—
Diluted net income per common share:						
Net income available to common shareholders	\$ 69,411	12,554	\$ 5.53	\$ 23,824	13,486	\$ 1.77

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		For the nine months ended	
	November 30,		November 30,	
	2017	2018	2017	2018
	(shares in 000's)			
Equity awards	1,703	1,159	1,948	913
Antidilutive common share equivalents	1,703	1,159	1,948	913

Local Programming and Marketing Agreement Fees

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

On April 30, 2018, Emmis closed on the sale of substantially all of its radio station assets in St. Louis. The St. Louis stations were operated pursuant to LMAs from March 1, 2018 through April 30, 2018. The buyers of the stations paid LMA fees totaling \$0.7 million during the period, which was recognized as a component of net revenues in the accompanying condensed consolidated statements of operations for the nine-month period ending November 30, 2018.

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

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

	For the three months ended November 30,		For the nine months ended November 30,	
	2017	2018	2017	2018
Net revenues	\$ 2,582	\$ 2,582	\$ 7,748	\$ 7,748
Station operating expenses, excluding depreciation and amortization expense	293	305	882	901
Interest expense	640	574	1,968	1,775

Assets and liabilities of 98.7FM as of February 28, 2018 and November 30, 2018 were as follows:

	As of February 28, 2018	As of November 30, 2018
Current assets:		
Restricted cash	\$ 1,358	\$ 1,359
Prepaid expenses	448	407
Other current assets	31	249
Total current assets	1,837	2,015
Noncurrent assets:		
Property and equipment, net	208	192
Indefinite lived intangibles	46,390	46,390
Deposits and other	6,543	6,355
Total noncurrent assets	53,141	52,937
Total assets	\$ 54,978	\$ 54,952
Current liabilities:		
Accounts payable and accrued expenses	\$ 18	\$ 18
Current maturities of long-term debt	6,587	7,006
Deferred revenue	835	864
Other current liabilities	184	167
Total current liabilities	7,624	8,055
Noncurrent liabilities:		
Long-term debt, net of current portion and unamortized debt discount	45,632	40,513
Total noncurrent liabilities	45,632	40,513
Total liabilities	\$ 53,256	\$ 48,568

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets to the same amounts shown in the condensed consolidated statements of cash flows.

	As of February 28, 2018	As of November 30, 2018
Cash and cash equivalents	\$ 4,107	\$ 8,616
Restricted cash:		
98.7FM LMA restricted cash	1,358	1,359
Cash held in escrow from sale of magazines restricted cash	650	—
Total cash, cash equivalents and restricted cash	\$ 6,115	\$ 9,975

As of November 30, 2018, restricted cash relates to cash on deposit in trust accounts related to our 98.7FM LMA in New York City that services long-term debt. During the nine months ended November 30, 2018, Emmis settled its dispute with Hour Media related to Hour's purchase of *Los Angeles Magazine*, *Atlanta Magazine*, *Cincinnati Magazine* and *Orange Coast Magazine*. Cash was released from escrow in May 2018 and is no longer classified as restricted. See Note 9 for more discussion.

Noncontrolling Interests

The Company follows Accounting Standards Codification paragraph 810-10-65-1 to report the noncontrolling interests related to our Austin radio partnership and Digonex Technologies Inc., a dynamic pricing business (hereinafter "Digonex"). We have a 50.1% controlling interest in our Austin radio partnership. We do not own any of the common equity of Digonex, but we consolidate the entity because we control its board of directors via rights granted in convertible preferred stock and convertible debt that we own. As of November 30, 2018, Emmis owns rights that are convertible into approximately 84% of Digonex's common equity.

Noncontrolling interests represent the noncontrolling interest holders' proportionate share of the equity of the Austin radio partnership and Digonex. Noncontrolling interests are adjusted for the noncontrolling interest holders' proportionate share of the earnings or losses of the applicable entity. The noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. Below is a summary of the noncontrolling interest activity for the nine months ended November 30, 2017 and 2018:

	Austin radio partnership	Digonex	Total noncontrolling interests
Balance, February 28, 2017	\$ 46,830	\$ (13,909)	\$ 32,921
Net income (loss)	4,602	(2,244)	2,358
Distributions to noncontrolling interests	(3,556)	—	(3,556)
Balance, November 30, 2017	<u>\$ 47,876</u>	<u>\$ (16,153)</u>	<u>\$ 31,723</u>
Balance, February 28, 2018	\$ 47,424	\$ (16,744)	\$ 30,680
Net income (loss)	4,132	(1,736)	2,396
Distributions to noncontrolling interests	(3,792)	—	(3,792)
Balance, November 30, 2018	<u>\$ 47,764</u>	<u>\$ (18,480)</u>	<u>\$ 29,284</u>

Recent Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU was issued to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted this guidance on March 1, 2018 with no material impact on its consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this guidance on March 1, 2018 with no material impact on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU was issued to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted this guidance on March 1, 2018 with no material impact on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842). This update requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations.

The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements, but believes that the implementation will result in an increase in assets and liabilities associated with operating leases. However, the Company does not believe the adoption of this guidance will have a material impact on its consolidated statement of operations.

This guidance will be effective for the Company as of March 1, 2019 and the Company plans to adopt this guidance on that date. The Company plans to elect the available practical expedients as described in Accounting Standards Update 2016-02 upon adoption. Successful implementation of the new accounting guidance for leases is dependent on a number of factors, including the completion of the Company's analysis of its lease portfolio. The Company believes it is on schedule to implement this guidance by the required date.

In July 2018, the accounting guidance was further modified to provide for an additional transition method which allows entities to: (i) apply the new lease requirements at the effective date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption; (ii) continue to report comparative periods presented in the financial statements in the period of adoption under current U.S. generally accepted accounting principles (GAAP); and (iii) provide the required disclosures under current U.S. GAAP for all periods presented under current U.S. GAAP. The Company plans to adopt the amended accounting guidance using this transition method.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), 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. The Company adopted the new guidance on March 1, 2018, using the modified retrospective method, with no impact on its consolidated financial statements. The cumulative effect of initially applying the new guidance had no impact on the opening balance of retained earnings as of March 1, 2018. The comparative information has not been restated and continues to be reported under the accounting guidance in effect for that period. The Company does not expect the new guidance will have a material impact on its consolidated financial statements in future periods. See Note 7 for more discussion.

Note 2. Share Based Payments

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

Stock Option Awards

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

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model and expensed on a straight-line basis over the vesting period. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The Company includes estimated forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of awards. The risk-free interest rate for periods within the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used to calculate the fair value of the Company's options on the date of grant during the nine months ended November 30, 2017 and 2018:

	Nine Months Ended November 30,	
	2017	2018
Risk-Free Interest Rate:	1.7% - 2.0%	2.6% - 2.8%
Expected Dividend Yield:	0%	0%
Expected Life (Years):	4.4	4.9
Expected Volatility:	52.9% - 53.9%	51.3% - 53.2%

The following table presents a summary of the Company's stock options outstanding at November 30, 2018, and stock option activity during the nine months ended November 30, 2018 ("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	2,691,329	\$ 4.66		
Granted	259,000	4.64		
Exercised	141,668	2.42		
Forfeited	—	—		
Expired	43,245	8.92		
Outstanding, end of period	2,765,416	4.71	6.2	\$ 1,722
Exercisable, end of period	2,095,912	5.09	5.4	\$ 1,275

Cash received from option exercises for the nine months ended November 30, 2017 and 2018 was \$0.1 million and \$0.3 million, respectively. The Company did not record an income tax benefit relating to the options exercised during the nine months ended November 30, 2017 or 2018.

The weighted average per share grant date fair value of options granted during the nine months ended November 30, 2017 and 2018, was \$1.25 and \$2.27, respectively.

A summary of the Company's nonvested options at November 30, 2018, and changes during the nine months ended November 30, 2018, is presented below:

	Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	691,114	\$ 2.10
Granted	259,000	2.27
Vested	280,610	3.30
Forfeited	—	—
Nonvested, end of period	669,504	1.67

There were 2.0 million shares available for future grants under the Company's various equity plans (1.7 million shares under the 2017 Equity Compensation Plan and 0.3 million shares under other plans) at November 30, 2018, not including shares that may become available for future grants upon forfeiture, lapse or surrender for taxes.

The vesting dates of outstanding options at November 30, 2018 range from January 2019 to July 2021, and expiration dates range from March 2019 to July 2028.

Restricted Stock Awards

The Company periodically grants restricted stock awards to directors and employees. Awards to directors were historically granted on the date of our annual meeting of shareholders and vested on the earlier of (i) the completion of the director's 3-year term or (ii) the third anniversary of the date of grant. No such awards were made to directors at our last annual meeting of shareholders. Awards to employees are typically made pursuant to employment agreements. Restricted stock awards are granted out of the Company's 2017 Equity Compensation Plan. The Company also awards, out of the Company's 2017 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, 2018, and restricted stock activity during the nine months ended November 30, 2018 ("Price" reflects the weighted average share price at the date of grant):

	Awards	Price
Grants outstanding, beginning of period	353,394	\$ 3.05
Granted	188,645	4.53
Vested (restriction lapsed)	201,932	3.64
Grants outstanding, end of period	340,107	3.52

The total grant date fair value of shares vested during the nine months ended November 30, 2017 and 2018, was \$0.6 million and \$0.7 million, respectively.

Recognized Non-Cash Compensation Expense

The following table summarizes stock-based compensation expense recognized by the Company during the three and nine months ended November 30, 2017 and 2018. The Company did not recognize any tax benefits related to stock-based compensation during the periods presented below.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2017	2018	2017	2018
Station operating expenses	\$ 94	\$ 69	\$ 420	\$ 212
Corporate expenses	526	318	1,596	1,076
Stock-based compensation expense included in operating expenses	\$ 620	\$ 387	\$ 2,016	\$ 1,288

As of November 30, 2018, there was \$1.2 million of unrecognized compensation cost, net of estimated forfeitures, related to nonvested share-based compensation arrangements. The cost is expected to be recognized over a weighted average period of approximately 1.6 years.

Note 3. Intangible Assets and Goodwill

Valuation of Indefinite-lived Broadcasting Licenses

In accordance with Accounting Standards Codification ("ASC") Topic 350, *Intangibles—Goodwill and Other*, the Company's 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.

Excluding amounts classified as held for sale as of February 28, 2018, the carrying amounts of the Company's FCC licenses were \$170.9 million as of February 28, 2018 and November 30, 2018. 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 nine months ended November 30, 2018, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. These impairment tests may result in additional 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

The carrying amounts of the Company's goodwill, all of which were attributable to our radio division, were \$4.3 million as of February 28, 2018 and November 30, 2018. ASC Topic 350-20-35 requires the Company to test goodwill for impairment at least annually. The Company conducts its 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 generally uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units, with radio stations grouped by market. 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. Management believes this methodology for valuing radio 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 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. If the carrying value of a reporting unit's goodwill exceeds its fair value, the Company recognizes an impairment charge equal to the difference in the statement of operations.

Definite-lived intangibles

The following table presents the weighted-average useful life at November 30, 2018, and the gross carrying amount and accumulated amortization for our sole definite-lived intangible asset at February 28, 2018 and November 30, 2018:

	As of February 28, 2018			As of November 30, 2018			
	Weighted Average Remaining Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Programming agreement	2.8	2,154	1,101	1,053	2,154	1,321	833

(in 000's, except years)

In accordance with Accounting Standards Codification paragraph 360-10, the Company performs an analysis to (i) determine if indicators of impairment of a long-lived asset are present, (ii) test the long-lived asset for recoverability by comparing undiscounted cash flows of the long-lived asset to its carrying value and (iii) measure any potential impairment by comparing the long-lived asset's fair value to its current carrying value.

Total amortization expense from definite-lived intangibles for the nine-month periods ended November 30, 2017 and 2018 was \$0.3 million and \$0.2 million, respectively. The following table presents the Company's estimate of future amortization expense for definite-lived intangibles:

Year ended February 28 (29),	Expected Amortization Expense
Remainder of 2019	\$ 74
2020	294
2021	294
2022	171

Note 4. Long-term Debt

Long-term debt was comprised of the following at February 28, 2018 and November 30, 2018:

	February 28, 2018	November 30, 2018
2014 Credit Agreement debt :		
Revolver	\$ 9,000	\$ —
Term Loan	69,451	28,000
Total 2014 Credit Agreement debt	78,451	28,000
98.7FM non-recourse debt	53,919	49,020
Other non-recourse debt ⁽¹⁾	9,992	10,054
Less: Current maturities	(16,037)	(35,006)
Less: Unamortized original issue discount	(3,476)	(1,706)
Total long-term debt	\$ 122,849	\$ 50,362

⁽¹⁾ The face value of other non-recourse debt was \$10.2 million at February 28, 2018 and November 30, 2018

2014 Credit Agreement

On June 10, 2014, Emmis entered into the 2014 Credit Agreement, by and among the Company, Emmis Operating Company, as borrower (the "Borrower"), certain other subsidiaries of the Company, as guarantors (the "Subsidiary

Guarantors”) and the lenders party thereto. Capitalized terms in this section not defined elsewhere in this 10-K are defined in the 2014 Credit Agreement and related amendments.

The 2014 Credit Agreement consists of remaining balances of a term loan (\$69.5 million and \$28.0 million as of February 28, 2018 and November 30, 2018, respectively). Our revolving credit facility, which had a maximum commitment of \$20.0 million, expired on August 31, 2018. The revolving credit facility included a sub-facility for the issuance of up to \$5.0 million of letters of credit. No letters of credit were outstanding during the periods presented in the accompanying condensed consolidated financial statements.

The term loan is due not later than April 18, 2019. The Company is not required to make scheduled principal payments under the term loan prior to this date. Amounts outstanding under the 2014 Credit Agreement bear interest, at the Company’s option, at either (i) the Alternate Base Rate (but not less than 2.00%) plus 6.00% or (ii) the Adjusted LIBO Rate plus 7.00%. Effective July 18, 2018, any principal payments on the term loans must be accompanied by a fee to the lenders equal to 2% of the amount being repaid. In addition, on each ninety day anniversary after July 18, 2018, such fee increases by an additional 0.5% and the interest rate on amounts outstanding increases by 0.5%. The weighted average borrowing rate of amounts outstanding related to the 2014 Credit Agreement was 8.7% and 9.9% at February 28, 2018 and November 30, 2018, respectively.

Our 2014 Credit Agreement debt is carried net of an unamortized original issue discount of \$0.2 million as of November 30, 2018. The original issue discount 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.

The 2014 Credit Agreement requires mandatory prepayments for, among other things, proceeds from the sale of assets, insurance proceeds and Consolidated Excess Cash Flow (as defined in the 2014 Credit Agreement).

The 2014 Credit Agreement requires the Company to comply with certain financial and non-financial covenants. The Company is required to comply with a Total Leverage Ratio covenant of 4.00:1.00. We were in compliance with all financial and non-financial covenants as of November 30, 2018. Our Total Leverage Ratio (as defined in the 2014 Credit Agreement and related amendments) requirement and actual amount as of November 30, 2018 were as follows:

	As of November 30, 2018	
	Covenant Requirement	Actual Results
Total Leverage Ratio	4.00 : 1.00	2.37 : 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%. The 98.7FM non-recourse notes are carried on our condensed consolidated balance sheets net of an original issue discount. The original issue discount, which was \$1.7 million and \$1.5 million as of February 28, 2018 and November 30, 2018, respectively, is being amortized as additional interest expense over the life of the notes.

Other 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. During the quarter ended August 31, 2017, Digonex noteholders agreed to extend the maturity date of the notes from December 31, 2017 to December 31, 2020. The notes accrue interest at 5.0% per annum with interest 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.

NextRadio, LLC has issued \$4.0 million of notes payable. As of November 30, 2018, the notes accrue interest at 6.0%. The first interest payment on these notes was due on August 15, 2018. As of January 10, 2019, NextRadio, LLC has not made any interest payments to the lender. Although there are no penalties for nonpayment of interest, the lender, at its election, may convert the notes and all unpaid interest to senior preferred equity of NextRadio, LLC's parent entity, TagStation, LLC. The lender has given notice of its intent to convert the notes to senior preferred equity of TagStation, LLC, but the steps required to effect this conversion as defined in the loan agreement have not yet been completed. These notes are obligations of NextRadio, LLC and TagStation, LLC and are non-recourse to the rest of Emmis' subsidiaries. TagStation, LLC and Next Radio, LLC have never achieved profitability, with their losses having expanded in recent years as a result of investments in data attribution capabilities. During the quarter ended November 30, 2018, Emmis decided to cease further investments in TagStation, LLC and NextRadio, LLC. As a result, these businesses have reduced the scale of their operations to absolute minimum functionality, terminated the employment of virtually all of their employees and are exploring strategic alternatives.

Based on amounts outstanding at November 30, 2018, mandatory principal payments of long-term debt for the next five years and thereafter are summarized below:

Year ended February 28 (29),	Term Loan	98.7FM Non-recourse Debt	Other Non-recourse Debt	Total Payments
Remainder of 2019	\$ —	\$ 1,688	\$ —	\$ 1,688
2020	28,000	7,150	—	35,150
2021	—	7,755	6,239	13,994
2022	—	8,394	4,000	12,394
2023	—	9,069	—	9,069
Thereafter	—	14,964	—	14,964
Total	\$ 28,000	\$ 49,020	\$ 10,239	\$ 87,259

Note 5. Liquidity and Going Concern

Pursuant to ASC Topic 205-40, *Going Concern*, the Company is required to evaluate whether there is substantial doubt about its ability to continue as a going concern each reporting period. In evaluating the Company's ability to continue as a going concern for this reporting period, management evaluated the conditions and events that could raise substantial doubt about the Company's ability to continue as a going concern within one year of the date the financial statements were issued (January 10, 2019). Management considered the Company's current projections of future cash flows, current financial condition, sources of liquidity and debt obligations due on or before January 10, 2020.

The Company's revolver expired on August 31, 2018 and its term loan is due no later than April 18, 2019. As of November 30, 2018, the Company has \$28.0 million outstanding under its term loan, and has approximately \$9 million of cash on hand. The Company believes it can fund its future operational needs with its cash on hand and cash generated from operations, but will not be able to repay its term loan by April 18, 2019 absent other actions.

Management is currently exploring a number of options that would allow the Company to repay its term loan by April 18, 2019. Management believes that it is probable that it will refinance its remaining term loan under the 2014 Credit Agreement prior to April 18, 2019. The Company has successfully refinanced its credit agreement debt many times in the past. Recent asset sales and associated term loan repayments have significantly reduced the Company's leverage ratio. Additionally, dramatic cost reductions recently enacted within our emerging technologies operations improves our profitability prospectively. Management believes these actions have enhanced our ability to refinance our term loan. Management is also exploring several alternatives that would further reduce our term loan obligations and our ability to refinance, including the sale of WLIB-AM in New York City and other assets.

Management's intention and belief that the credit agreement debt will be refinanced prior to April 18, 2019 assumes, among other things, that the Company will continue to be successful in implementing its business strategy and that there will be no material adverse developments in its business, liquidity or capital requirements. If one or more of these factors do not occur as expected, it could cause a default under the Company's credit agreement.

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, 2018 and November 30, 2018. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	As of November 30, 2018			
	Level 1	Level 2	Level 3	Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(in 000's)			
Available for sale securities	\$ —	\$ —	\$ 800	\$ 800
Total assets measured at fair value on a recurring basis	\$ —	\$ —	\$ 800	\$ 800

	As of February 28, 2018			
	Level 1	Level 2	Level 3	Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(in 000's)			
Available for sale securities	\$ —	\$ —	\$ 800	\$ 800
Total assets measured at fair value on a recurring basis	\$ —	\$ —	\$ 800	\$ 800

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

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 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, 2018, the fair value and carrying value, excluding original issue discount, of the Company's 2014 Credit Agreement debt was \$27.7 million and \$28.0 million, respectively. The Company's estimate of fair value was based on non-exchange 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 other 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. Revenue

The Company generates revenue from the sale of services and products including, but not limited to: (i) on-air commercial broadcast time, (ii) magazine-related display advertising, (iii) magazine circulation and newsstand revenues, (iv) non-traditional revenues including event-related revenues and event sponsorship revenues, (v) revenues generated from LMAs and (vi) digital advertising. Payments received from advertisers before the performance obligation is satisfied are recorded as deferred revenue. Substantially all deferred revenue is recognized within twelve months of the payment date. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Advertising

On-air broadcast revenue and magazine display revenue are recognized when or as performance obligations under the terms of a contract with a customer are satisfied. This typically occurs over the period of time that advertisements are provided, or as an event occurs. Revenues are reported at the amount the Company expects to be entitled to receive under the contract. Payments received by advertisers before the performance obligation is satisfied are recorded as deferred revenue in the condensed consolidated balance sheet. Substantially all deferred revenue is recognized within twelve months of the payment date.

Circulation

Circulation revenue includes revenues for *Indianapolis Monthly* purchased by readers or distributors. Single copy newsstand sales are recognized when the monthly magazine is distributed, net of provisions for related returns. Circulation revenues from digital and home delivery subscriptions are recognized over the subscription period as the performance obligations are delivered.

Nontraditional

Nontraditional revenues principally consist of ticket sales and sponsorship of events our stations and magazine conduct in their local markets. These revenues are recognized when our performance obligations are fulfilled, which generally coincides with the occurrence of the related event.

LMA Fees

LMA fee revenue relates to fees that the Company collects from third parties in exchange for the right to program and sell advertising for a specified portion of a radio station's inventory of broadcast time. These revenues are generally recognized ratably over the duration that the third party programs the radio station.

Digital

Digital revenue relates to revenue generated from the sale of digital marketing services (including display advertisements and video sponsorships) to advertisers. Digital revenues are generally recognized as the digital advertising is delivered.

Disaggregation of revenue

The following table presents the Company's revenues disaggregated by revenue source:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2017	2018	2017	2018
(Dollars in thousands)				
Revenue by Source:				
Advertising	\$ 24,005	\$ 20,773	\$ 78,444	\$ 58,665
Circulation	103	93	312	288
Nontraditional	3,580	3,113	14,831	11,474
LMA Fees	2,582	2,583	8,169	8,467
Digital	2,350	1,466	8,150	3,957
Other	2,725	2,295	8,451	7,534
Total net revenues	\$ 35,345	\$ 30,323	\$ 118,357	\$ 90,385

Note 8. Segment Information

The Company's operations have historically been aligned into three business segments: (i) Radio, (ii) Publishing and (iii) Corporate & Emerging Technologies. Emerging Technologies includes our TagStation, NextRadio and Digonex businesses. These business segments are consistent with the Company's management of these businesses and its financial reporting structure. Corporate expenses are not allocated to reportable segments. The Company's segments operate exclusively in the United States.

The accounting policies as described in the summary of significant accounting policies included in the Company's Annual Report filed on Form 10-K for the year ended February 28, 2018, and in Note 1 to these condensed consolidated financial statements, are applied consistently across segments.

Three Months Ended November 30, 2018	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	\$ 28,728	\$ 1,177	\$ 418	\$ 30,323
Station operating expenses excluding and depreciation and amortization expense	19,015	1,176	3,780	23,971
Corporate expenses excluding depreciation and amortization expense	—	—	2,297	2,297
Depreciation and amortization	590	4	212	806
Loss on sale of assets, including disposition costs	235	—	—	235
Loss on disposal of property and equipment	57	—	—	57
Operating income (loss)	\$ 8,831	\$ (3)	\$ (5,871)	\$ 2,957

Three Months Ended November 30, 2017	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	\$ 33,980	\$ 1,129	\$ 236	\$ 35,345
Station operating expenses excluding LMA fees and depreciation and amortization expense	23,933	1,131	2,922	27,986
Corporate expenses excluding depreciation and amortization expense	—	—	2,500	2,500
Depreciation and amortization	675	4	201	880
Loss on sale of assets, net of disposition costs	—	46	—	46
Loss on disposal of property and equipment	—	1	—	1
Operating income (loss)	\$ 9,372	\$ (53)	\$ (5,387)	\$ 3,932

<u>Nine Months Ended November 30, 2018</u>	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	\$ 85,843	\$ 3,347	\$ 1,195	\$ 90,385
Station operating expenses excluding depreciation and amortization expense	59,368	3,384	8,753	71,505
Corporate expenses excluding depreciation and amortization expense	—	—	7,607	7,607
Depreciation and amortization	1,709	14	661	2,384
(Gain) loss on sale of assets, net of disposition costs	(32,148)	331	—	(31,817)
Loss on disposal of property and equipment	57	—	—	57
Operating income (loss)	<u>\$ 56,857</u>	<u>\$ (382)</u>	<u>\$ (15,826)</u>	<u>\$ 40,649</u>

<u>Nine Months Ended November 30, 2017</u>	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	\$ 114,450	\$ 3,119	\$ 788	\$ 118,357
Station operating expenses excluding depreciation and amortization expense	79,948	3,590	9,582	93,120
Corporate expenses excluding depreciation and amortization expense	—	—	7,781	7,781
Depreciation and amortization	2,119	14	606	2,739
(Gain) loss on sale of assets, net of disposition costs	(76,745)	85	—	(76,660)
Loss on disposal of property and equipment	—	13	—	13
Operating income (loss)	<u>\$ 109,128</u>	<u>\$ (583)</u>	<u>\$ (17,181)</u>	<u>\$ 91,364</u>

<u>Total Assets</u>	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
As of February 28, 2018	\$ 249,044	\$ 1,293	\$ 20,807	\$ 271,144
As of November 30, 2018	\$ 222,598	\$ 862	\$ 22,346	\$ 245,806

Note 9. 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.

During the quarter ended August 31, 2017, Emmis filed suit against Hour Media Group, LLC ("Hour") for breach of the asset purchase agreement related to the February 28, 2017 sale of *Los Angeles Magazine*, *Atlanta Magazine*, *Cincinnati Magazine* and *Orange Coast Magazine*. Hour filed a counterclaim against Emmis alleging that Emmis engaged in a series of actions that constitute a breach of the asset purchase agreement. The parties agreed to settle this dispute in May 2018. As part of the mutual settlement, all claims and counterclaims were dismissed with Emmis and Hour receiving \$0.45 million and \$0.2 million of the cash held in escrow, respectively. The Company recognized a loss of \$0.2 million related to this settlement during the nine months ended November 30, 2018, which is included in gain on sale of assets, net of disposition costs in the accompanying condensed consolidated financial statements.

Emmis filed suit against Illinois National Insurance Company ("INIC") in 2015 related to INIC's decision to not cover Emmis' defense costs under Emmis' directors and officers insurance policy in a lawsuit related to the Company's preferred stock in which Emmis was the defendant (the "Prior Litigation"). On March 21, 2018, Emmis was granted summary judgment entitling it to coverage of its defense costs in the Prior Litigation. On October 10, 2018, Emmis and INIC agreed that the amount of Emmis' damages are \$3.5 million. On November 7, 2018, INIC appealed the District Court's summary judgment determination that the insurance policy covers Emmis' defense costs. Accordingly, Emmis cannot estimate the amount or timing of a recovery, if any.

Note 10. Income Taxes

Our effective income tax rate was 6% and 23% for the nine-month periods ended November 30, 2017 and 2018, respectively. The Company estimates its effective tax rate for the year, which incorporates the reversal of a portion of the

valuation allowance, and applies that rate to pre-tax income for the applicable period. This methodology is primarily responsible for the difference between the effective rate and statutory rate, particularly in the prior year, which included the sale of KPWR in Los Angeles and the related reversal of a significant portion of our valuation allowance. Our current year rate is also impacted by the reduction in the Federal Statutory rate from 35% to 21% upon passage of the Tax Cuts and Jobs Act (the "Tax Act").

Any further technical corrections or other forms of guidance addressing the Tax Act, as well as regulatory or governmental actions, could result in adjustments to our accounting for the effects of the Tax Act.

Note 11. Other Significant Events

Sale of St. Louis radio stations

On April 30, 2018, Emmis closed on its sale of substantially all of the assets of its radio stations in St. Louis in two separate transactions. In one transaction, Emmis sold the assets of KSHE-FM and KPNT-FM to affiliates of Hubbard Radio. In the other transaction, Emmis sold the assets of KFTK-FM and KNOU-FM to affiliates of Entercom Communications Corp. At closing, Emmis received aggregate gross proceeds of \$60.0 million. After deducting estimated taxes payable and transaction-related expenses, net proceeds totaled approximately \$40.5 million and were used to repay term loan indebtedness under Emmis' senior credit facility. The taxes payable as a result of the transactions are not required to be remitted to the applicable taxing authority until May 2019, so we repaid amounts outstanding under our revolver and we plan to hold excess cash on our balance sheet to enhance our liquidity position until we remit the taxes in May 2019. Emmis recorded a \$32.1 million gain on the sale of its St. Louis radio stations.

The St. Louis radio stations were operated pursuant to LMAs from March 1, 2018 through the closing of the transactions. Entercom and Hubbard paid LMA fees to Emmis totaling \$0.7 million during the period. These fees are included in our results of operations as net revenues for the nine-month period ended November 30, 2018.

In connection with the sale of our St. Louis stations, the Company originally recorded \$1.2 million of restructuring charges related to the involuntary termination of employees and estimated cease-use costs related to our leased St. Louis office facility, net of estimated sublease rentals. During the three months ended November 30, 2018, the Company revised its estimate of cease-use costs related to our leased St. Louis office facility, which resulted in an additional charge of \$0.2 million. These charges are included in the gain on sale of assets, net of disposition costs in the accompanying condensed consolidated financial statements. The table below summarizes the activity related to our restructuring charge for the three-month and nine-month periods ended November 30, 2018.

	<u>Three months ended</u>	<u>Nine months ended</u>
	<u>November 30, 2018</u>	<u>November 30, 2018</u>
Restructuring charges and estimated lease cease-use costs, beginning balance	\$ 1,052	\$ —
Restructuring charges and estimated lease cease-use costs- St. Louis radio stations sale	245	1,423
Payments, net of accretion	(103)	(229)
Restructuring charges and estimated lease cease-use costs unpaid and outstanding	<u>\$ 1,194</u>	<u>\$ 1,194</u>

The St. Louis radio stations had historically been included in our Radio segment. This disposal did not qualify for reporting as a discontinued operation as it did not represent a strategic shift for the Company as described in Accounting Standards Codification 205-20-45-1C. The following table summarizes certain operating results of the our St. Louis radio stations for all periods presented. Pursuant to Accounting Standards Codification 205-20-45-6, interest expense associated with the required term loan repayment associated with the sale of the St. Louis radio stations is included in the stations' results below.

	For the three months ended November 30,		For the nine months ended November 30,	
	2017	2018	2017	2018
Net revenues	\$ 6,218	\$ (13)	\$ 18,974	\$ 712
Station operating expenses (recoveries), excluding depreciation and amortization expense	4,797	(208)	14,536	485
Depreciation and amortization	146	—	425	—
Loss (gain) on sale of assets, net of disposition costs	—	235	—	(32,418)
Operating income	1,275	(40)	4,013	32,645
Interest expense	844	—	2,478	592
Income (loss) before income taxes	431	(40)	1,535	32,053

Unaudited pro forma summary information is presented below for the three-month and nine-month periods ended November 30, 2017 and 2018, assuming the August 1, 2017 sale of KPWR-FM, the April 30, 2018 sale of our St. Louis radio stations and the related mandatory debt repayments of these sales had occurred on the first day of the pro forma periods presented below. See Note 7 of our 10-K for the year ending February 28, 2018 for more discussion of the sale of KPWR-FM.

	For the three months ended November 30, (unaudited)		For the nine months ended November 30, (unaudited)	
	2017	2018	2017	2018
Net revenues	\$ 29,126	\$ 30,335	\$ 91,571	\$ 89,672
Station operating expenses, excluding depreciation and amortization expense	23,004	24,144	71,378	70,978
Consolidated net income	437	1,113	1,720	2,502
Net (loss) income attributable to the Company	(274)	276	(638)	106
Net (loss) income per share - basic	\$ (0.02)	\$ 0.02	\$ (0.05)	\$ 0.01
Net (loss) income per share - diluted	\$ (0.02)	\$ 0.02	\$ (0.05)	\$ 0.01

Emmis retained ownership of two radio transmission towers in St. Louis subsequent to the sale of our radio stations on April 30, 2018. These towers were classified as held for sale and carried at the lower of their carrying amount or fair value less cost to sell. During the quarter ended August 31, 2018, Emmis determined that the carrying value of these assets exceeded their fair value less cost to sell. As such, the Company recorded a loss of \$0.2 million to reduce the carrying value of these assets, which is included in station operating expenses excluding depreciation and amortization expense in the accompanying condensed consolidated statements of operations. This was considered a Level 3 measurement. The Company completed the sale of these radio transmission towers during the quarter ended November 30, 2018 for total net proceeds of \$0.2 million, which approximated their carrying value.

TagStation and NextRadio

During the quarter ended November 30, 2018, we decided to dramatically reduce the scale of our operations in TagStation, LLC and NextRadio, LLC. In connection with this decision, we recognized \$1.2 million of severance related to the termination of 35 employees and recognized \$0.3 million of impairment related to property and equipment of these businesses, both of which are included in station operating expenses, excluding depreciation and amortization in the accompanying condensed consolidated statements of operations.

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 obtain additional capital or to service our outstanding debt;*
- *competition from new or different media and technologies;*
- *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;*
- *inability to grow through suitable acquisitions or to consummate dispositions;*
- *new or changing technologies, including those that provide additional competition for our businesses;*
- *new or changing regulations of the Federal Communications Commission or other governmental agencies;*
- *war; terrorist acts or political instability; and*
- *other factors mentioned in 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, 2018. Emmis does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise.

GENERAL

We principally own and operate radio properties located in the United States. Our revenues are mostly affected by the advertising rates our entities charge, as advertising sales represent approximately two-thirds 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 weekly for markets measured by the Portable People Meter™, which includes all of our radio stations. 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, 2017 and 2018. The category "Non Traditional" principally consists of ticket sales and sponsorships of events our stations and magazines conduct in their local markets. The category "Other" includes, among other items, revenues related to our TagStation and Digonex businesses, network revenues and barter. We sold KPWR-FM in Los Angeles on August 1, 2017 and our four radio stations in St. Louis on April 30, 2018. These sales impact the comparability of the three-month and nine-month periods ended November 30, 2017 to the three-month and nine-month periods ended November 30, 2018.

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2017	% of Total	2018	% of Total	2017	% of Total	2018	% of Total
	(Dollars in thousands)							
Net revenues:								
Local	\$ 19,727	55.8%	\$ 16,639	54.9%	\$ 65,210	55.1%	\$ 48,771	54.0%
National	4,111	11.6%	3,020	10.0%	12,898	10.9%	8,293	9.2%
Political	167	0.5%	1,114	3.7%	336	0.3%	1,601	1.8%
Publication Sales	103	0.3%	93	0.3%	312	0.3%	288	0.3%
Non Traditional	3,580	10.1%	3,113	10.3%	14,831	12.5%	11,474	12.7%
LMA Fees	2,582	7.3%	2,583	8.5%	8,169	6.9%	8,467	9.4%
Digital	2,350	6.6%	1,466	4.8%	8,150	6.9%	3,957	4.4%
Other	2,725	7.8%	2,295	7.5%	8,451	7.1%	7,534	8.2%
Total net revenues	<u>\$ 35,345</u>		<u>\$ 30,323</u>		<u>\$118,357</u>		<u>\$ 90,385</u>	

As previously mentioned, we derive approximately two-thirds of our net revenues from advertising sales. In the nine-month period ended November 30, 2018, local sales, excluding political revenues, represented approximately 85% of the advertising revenues for our radio division.

No customer represents more than 10% of our consolidated net revenues. Our top ten categories for radio represent approximately 60% of our radio division's total advertising net revenues for the nine-month periods ended November 30, 2017 and 2018. The automotive industry was the largest category for our radio division for the nine-month periods ended November 30, 2017 and 2018, representing approximately 10% of our radio net revenues.

A significant portion of our expenses varies in connection with changes in revenue. These variable expenses primarily relate to costs in our sales department, such as salaries, commissions and bad debt. Our costs that do not vary as much in relation to revenue are mostly in our programming and general and administrative departments, such as talent costs, syndicated programming fees, utilities, office expenses and salaries. Lastly, our costs that are highly discretionary are costs in our marketing and promotions department, which we primarily incur to maintain and/or increase our audience and market share.

SIGNIFICANT TRANSACTIONS

On August 1, 2017, Emmis sold KPWR-FM in Los Angeles. On April 30, 2018, Emmis sold its four radio stations in St. Louis. Unaudited pro forma summary information is presented below for the three-month and nine-month periods ended November 30, 2017 and 2018, assuming these sales and the related mandatory debt repayments of these sales had occurred on the first day of the proforma periods presented below. See Note 7 of our 10-K for the year ending February 28, 2018 for more discussion of the sale of KPWR-FM and see Note 11 of this report for more discussion of the sale of our radio stations in St. Louis.

	For the three months ended November 30, (unaudited)		For the nine months ended November 30, (unaudited)	
	2017	2018	2017	2018
Net revenues	\$ 29,126	\$ 30,335	\$ 91,571	\$ 89,672
Station operating expenses, excluding depreciation and amortization expense	23,004	24,144	71,378	70,978
Consolidated net income	437	1,113	1,720	2,502
Net income (loss) attributable to the Company	(274)	276	(638)	106
Net income (loss) per share - basic	\$ (0.02)	\$ 0.02	\$ (0.05)	\$ 0.01
Net income (loss) per share - diluted	\$ (0.02)	\$ 0.02	\$ (0.05)	\$ 0.01

KNOWN TRENDS AND UNCERTAINTIES

The U.S. radio industry is a mature industry and its growth rate has stalled. 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, audio streaming services and podcasts 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. For example, like many of our peers, the majority of our stations have deployed HD Radio[®]. HD Radio offers listeners advantages over standard analog broadcasts, including improved sound quality and additional digital channels. In addition to offering secondary channels, the HD Radio spectrum allows broadcasters to transmit other forms of data. We are participating in a joint venture with other broadcasters to provide the bandwidth that a third party uses to transmit location-based data to hand-held and in-car navigation devices. The number of radio receivers incorporating HD Radio has increased in the past year, particularly in new automobiles. It is unclear what impact HD Radio will have on the markets in which we operate.

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

The Company spearheaded the radio industry's efforts to enable FM tuners in smartphones and other devices, as well as the development of a data attribution platform to provide the common language and measurement that radio advertisers are demanding. The Company aspired to grow radio's audience and solve a pressing need for radio advertisers by unlocking access to tens of millions of new portable radios (e.g., smartphones with an FM tuner) and real-time measurement of those listeners and their behaviors. While we dramatically increased the number of smartphones with a functioning FM tuner and developed the DialReport[™] to serve as a standardized data attribution platform, we were unable to garner sufficient radio industry participation to scale and sustain our pursuit of these objectives. Accordingly, during our quarter ended November 30, 2018, we decided to dramatically reduce our efforts in these areas, which included the termination of 35 employees.

The results of our radio operations are heavily dependent on the results of our stations in the New York market, which account for approximately 40% of our radio net revenues. Some of our competitors operate larger station clusters and 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. Market revenues in New York as measured by Miller Kaplan Arase LLP ("Miller Kaplan"), an independent public accounting firm used by the radio industry to compile revenue information, were down 3.4% for the nine months ended November 30, 2018, as compared to the same period of the prior year. During this period, revenues for our New York cluster were down 2.8%.

As part of our business strategy, we continually evaluate potential acquisitions of 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. In that respect, in recent years we have sold radio stations in Los Angeles, St. Louis and Terre Haute. We have also sold all of our publishing assets, except *Indianapolis Monthly*. We continue to explore the sale of WLIB-AM in New York and other assets, including land in Indianapolis.

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 related to 98.7FM is recognized on a straight-line basis over the term of the LMA.

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

FCC Licenses and Goodwill

We have made acquisitions in the past for which a significant amount of the purchase price was allocated to FCC licenses and goodwill assets. As of November 30, 2018, we have recorded approximately \$175.2 million in goodwill and FCC licenses, which represents approximately 71% of our total assets.

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

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

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

Valuation of Indefinite-lived Broadcasting Licenses

Fair value of our FCC licenses is estimated to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine the fair value of our FCC licenses, the Company uses an income valuation method when it performs its impairment tests. Under this method, the Company projects cash flows that would be generated by each of its units of accounting assuming the unit of accounting was 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 350-20-35 requires the Company to test goodwill for impairment at least annually. The Company conducts its 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 generally uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units, with radio stations grouped by market. 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. Management believes this methodology for valuing radio 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 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. If the carrying value of a reporting unit's goodwill exceeds its fair value, the Company recognizes an impairment charge equal to the difference 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 \$0.4 million and \$0.2 million for employee healthcare claims as of February 28, 2018 and November 30, 2018, respectively. The Company also maintains large deductible programs (ranging from \$10 thousand to \$2 million per occurrence) for general liability, property, director and officer liability, crime, fiduciary liability, workers' compensation, employment liability, automotive liability and media liability claims.

Results of Operations for the Three-Month and Nine-Month Periods Ended November 30, 2018, Compared to November 30, 2017

Net revenues:

	For the Three Months Ended November 30,		\$ Change	% Change	For the Nine Months Ended November 30,		\$ Change	% Change
	2017	2018			2017	2018		
	(As reported, amounts in thousands)							
Net revenues:								
Radio	\$ 33,980	\$ 28,728	\$ (5,252)	(15.5)%	\$ 114,450	\$ 85,843	\$ (28,607)	(25.0)%
Publishing	1,129	1,177	48	4.3 %	3,119	3,347	228	7.3 %
Emerging Technologies	236	418	182	77.1 %	788	1,195	407	51.6 %
Total net revenues	\$ 35,345	\$ 30,323	\$ (5,022)	(14.2)%	\$ 118,357	\$ 90,385	\$ (27,972)	(23.6)%

Radio net revenues were down for the three-month and nine-month periods ended November 30, 2018 mostly due to the sale of KPWR-FM on August 1, 2017 and the sale of our St. Louis stations on April 30, 2018. Excluding the effects of radio station sales, our radio net revenues would have been up approximately 3.5% and down approximately 2.9% for the three-month and nine-month periods ended November 30, 2018, respectively.

We typically monitor the performance of our stations against the aggregate performance of the markets in which we operate based on reports for the period prepared by Miller Kaplan. Miller Kaplan reports are generally prepared on a gross revenues basis and exclude revenues from barter and syndication arrangements. Miller Kaplan reported gross revenues for our radio markets decreased 2.5% for the nine-month period ended November 30, 2018, as compared to the same period of the prior year. Our gross revenues reported to Miller Kaplan were down 2.2% for the nine-month period ended November 30,

2018, as compared to the same period of the prior year. Our performance exceeded the market averages in New York and Indianapolis, but we lagged the market average in Austin.

Publishing net revenues increased slightly during the three-month and nine-month periods ended November 30, 2018 due to an improvement in advertising sales.

Emerging technologies net revenues, which primarily relate to licensing fees of our TagStation software and pricing services provided by Digonex, increased during the three-month and nine-month periods ended November 30, 2018. Digonex accounts for a majority of this growth.

Station operating expenses excluding depreciation and amortization expense:

	For the Three Months Ended November 30,		\$ Change	% Change	For the Nine Months Ended November 30,		\$ Change	% Change
	2017	2018			2017	2018		
(As reported, amounts in thousands)								
Station operating expenses excluding depreciation and amortization expense:								
Radio	\$ 23,933	\$ 19,015	\$ (4,918)	(20.5)%	\$ 79,948	\$ 59,368	\$ (20,580)	(25.7)%
Publishing	1,131	1,176	45	4.0 %	3,590	3,384	(206)	(5.7)%
Emerging Technologies	2,922	3,780	858	29.4 %	9,582	8,753	(829)	(8.7)%
Total station operating expenses excluding depreciation and amortization expense	\$ 27,986	\$ 23,971	\$ (4,015)	(14.3)%	\$ 93,120	\$ 71,505	\$ (21,615)	(23.2)%

The decrease in station operating expenses excluding depreciation and amortization expense for our radio division for the three-month and nine-month periods ended November 30, 2018 is due to the sale of KPWR-FM on August 1, 2017 and the sale of our radio stations in St. Louis on April 30, 2018. Excluding the effects of radio station sales, our radio station operating expenses excluding depreciation and amortization expense would have been up approximately 1.4% and 1.0% for the three-month and nine-month periods ending November 30, 2018, respectively.

Station operating expenses excluding depreciation and amortization expense for publishing for the nine-month period ended November 30, 2018 decreased mostly due to lower employee health care claims experience and general business insurance costs.

Station operating expenses excluding depreciation and amortization expense for emerging technologies increased during the three-month period ended November 30, 2018 due to severance related to employees of TagStation. During the quarter ended November 30, 2018, we decided to dramatically reduce the scale of our operations in this business, which included the termination of 35 employees. The decrease in expenses for the nine-month period ended November 30, 2018 is due to discretionary spending reductions as well as two nonrecurring charges in the same period of the prior year, including (i) NextRadio, LLC funding \$0.65 million of its obligation to Sprint with the proceeds of a third party loan, and (ii) Emmis contributing \$0.3 million to NextRadio, LLC, which was remitted to Sprint in connection with the final payment to Sprint, all partially offset by the severance expense discussed above.

Corporate expenses excluding depreciation and amortization expense:

	For the Three Months Ended November 30,		\$ Change	% Change	For the Nine Months Ended November 30,		\$ Change	% Change
	2017	2018			2017	2018		
(As reported, amounts in thousands)								
Corporate expenses excluding depreciation and amortization expense	\$ 2,500	\$ 2,297	\$ (203)	(8.1)%	\$ 7,781	\$ 7,607	\$ (174)	(2.2)%

Corporate expenses excluding depreciation and amortization expense decreased during the three-month and nine-month periods ended November 30, 2018, mostly due to lower employee compensation and benefit costs.

Depreciation and amortization:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2017	2018	\$ Change	% Change	2017	2018	\$ Change	% Change
(As reported, amounts in thousands)								
Depreciation and amortization:								
Radio	\$ 675	\$ 590	\$ (85)	(12.6)%	\$ 2,119	\$ 1,709	\$ (410)	(19.3)%
Publishing	4	4	—	— %	14	14	—	— %
Corporate & Emerging Technologies	201	212	11	5.5 %	606	661	55	9.1 %
Total depreciation and amortization	<u>\$ 880</u>	<u>\$ 806</u>	<u>\$ (74)</u>	<u>(8.4)%</u>	<u>\$ 2,739</u>	<u>\$ 2,384</u>	<u>\$ (355)</u>	<u>(13.0)%</u>

The decrease in radio depreciation and amortization expense for the three-month and nine-month periods ended November 30, 2018 is related to the sale of KPWR-FM on August 1, 2017 and our radio stations in St. Louis on April 30, 2018.

Corporate & Emerging Technologies depreciation and amortization expense for the three-month and nine-month periods ended November 30, 2018 was up slightly due to depreciation of new equipment placed into service in fiscal 2018.

Loss (gain) on sale of assets, net of disposition costs:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2017	2018	\$ Change	% Change	2017	2018	\$ Change	% Change
(As reported, amounts in thousands)								
Loss (gain) on sale of assets, net of disposition costs:								
Radio	\$ —	235	\$ 235	N/A	(76,745)	(32,148)	\$ 44,597	N/A
Publishing	46	—	(46)	N/M	85	331	246	N/A
Total loss (gain) on sale of assets, net of disposition costs	<u>\$ 46</u>	<u>\$ 235</u>	<u>\$ 189</u>	<u>N/M</u>	<u>\$ (76,660)</u>	<u>\$ (31,817)</u>	<u>\$ 44,843</u>	<u>N/A</u>

During the nine-month period ended November 30, 2018, the Company sold its four radio stations in St. Louis for \$60.0 million in cash and recognized a \$32.1 million gain on the sale of these stations. During the three-month period ended November 30, 2018, the Company revised its cease-use reserve related to its former St. Louis office facility by \$0.2 million. See Note 11 of the accompanying condensed consolidated financial statements for more discussion.

During the nine-month period ended November 30, 2017, the Company sold KPWR-FM in Los Angeles and recorded a \$76.7 million gain on sale of assets, net of disposition costs.

The loss on sale of publishing assets during the nine month period ended November 30, 2018 relates to the settlement of our dispute with Hour Media and the related legal fees incurred.

Operating income:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2017	2018	\$ Change	% Change	2017	2018	\$ Change	% Change
(As reported, amounts in thousands)								
Operating income:								
Radio	\$ 9,372	\$ 8,831	\$ (541)	(5.8)%	\$ 109,128	\$ 56,857	\$ (52,271)	(47.9)%
Publishing	(53)	(3)	50	94.3 %	(583)	(382)	201	34.5 %
Corporate & Emerging Technologies	(5,387)	(5,871)	(484)	(9.0)%	(17,181)	(15,826)	1,355	7.9 %
Total operating income:	<u>\$ 3,932</u>	<u>\$ 2,957</u>	<u>\$ (975)</u>	<u>(24.8)%</u>	<u>\$ 91,364</u>	<u>\$ 40,649</u>	<u>\$ (50,715)</u>	<u>(55.5)%</u>

Radio operating income decreased in the three-month period ended November 30, 2018 due to the sale of our radio stations in St. Louis in April 2018. Radio operating income decreased for the nine-month period ended November 30, 2018 due to the gains recorded in connection with the sale of radio stations. We recorded a \$32.1 million gain on the sale of our radio stations in St. Louis during the nine months ended November 30, 2018. During the nine months ended November 30, 2017, we recorded a \$76.7 million gain on the sale of KPWR-FM in Los Angeles. Excluding these gains, radio operating income would have decreased \$7.7 million during the nine-month period ended November 30, 2018, mostly due to declining revenues as discussed above.

Publishing operating income increased slightly during the three-month and nine-month periods ended November 30, 2018 due to better overall advertising sales performance of *Indianapolis Monthly* coupled with lower insurance expense during the periods.

Corporate and emerging technologies operating loss increased during the three-month period ended November 30, 2018 mostly due to severance related to employees of TagStation as previously discussed. Corporate and emerging technologies operating loss decreased during the nine-month period ended November 30, 2018 despite this severance expense due to discretionary spending reductions, coupled with two nonrecurring items in the same period of the prior year, as discussed above.

Interest expense:

	For the Three Months Ended November 30,		\$ Change	% Change	For the Nine Months Ended November 30,		\$ Change	% Change
	2017	2018			2017	2018		
(As reported, amounts in thousands)								
Interest expense	\$ (3,000)	\$ (1,546)	\$ 1,454	(48.5)%	\$ (12,214)	\$ (5,902)	\$ 6,312	(51.7)%

Interest expense decreased in the three-month and nine-month periods ended November 30, 2018 mostly due to lower debt outstanding as compared to the same period of the prior year. On August 1, 2017, the Company sold KPWR-FM and repaid approximately \$73.6 million of term loans. On April 30, 2018, the Company sold radio stations in St. Louis and repaid approximately \$41.5 million of term loans. The weighted-average interest rate of debt outstanding under our 2014 Credit Agreement was 8.2% and 9.9% at November 30, 2017 and 2018, respectively.

Loss on debt extinguishment:

	For the Three Months Ended November 30,		\$ Change	% Change	For the Nine Months Ended November 30,		\$ Change	% Change
	2017	2018			2017	2018		
(As reported, amounts in thousands)								
Loss on debt extinguishment	\$ (139)	\$ —	\$ 139	N/A	\$ (2,662)	\$ (771)	\$ 1,891	71.0%

In connection with required term loan repayments associated with the sale of our radio stations in St. Louis in the current year and KPWR-FM in Los Angeles in the prior year, the Company wrote-off a pro rata portion of the unamortized debt discount outstanding attributable to the retired term loans.

Provision (benefit) for income taxes:

	For the Three Months Ended November 30,		\$ Change	% Change	For the Nine Months Ended November 30,		\$ Change	% Change
	2017	2018			2017	2018		
(As reported, amounts in thousands)								
Provision (benefit) for income taxes	\$ 371	\$ (98)	\$ (469)	(126.4)%	\$ 4,743	\$ 7,848	\$ 3,105	65.5%

Our effective income tax rate was 6% and 23% for the nine-month periods ended November 30, 2017 and 2018, respectively. The Company estimates its effective tax rate for the year, which incorporates the reversal of a portion of the valuation allowance, and applies that rate to pre-tax income for the applicable period. This methodology is primarily responsible for the difference between the effective rate and statutory rate, particularly in the prior year, which included the sale of KPWR in Los Angeles and the related reversal of a significant portion of our valuation allowance.

Consolidated net income:

	For the Three Months Ended November 30,				For the Nine Months Ended November 30,			
	2017	2018	\$ Change	% Change	2017	2018	\$ Change	% Change
(As reported, amounts in thousands)								
Consolidated net income	\$ 432	\$ 1,549	\$ 1,117	258.6%	\$ 71,769	\$ 26,220	\$ (45,549)	(63.5)%

Consolidated net income for the nine-month periods ended November 30, 2017 and 2018 mostly consist of the gains recorded on the sale of radio stations, net of taxes as previously discussed.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand and cash provided by operations. Our primary uses of capital during the past few years have been, and are expected to continue to be, investments in growth initiatives, capital expenditures, working capital, debt service requirements, repayment of debt and investments in future growth opportunities in new businesses. The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. Mandatory amortization payments of our term loans were eliminated as a result of our repayment of term loans in connection with the sale of KPWR-FM in August 2017.

At November 30, 2018, we had cash and cash equivalents of \$8.6 million and net working capital of \$(22.7) million. At February 28, 2018, we had cash and cash equivalents of \$4.1 million and net working capital of \$27.1 million. The decrease in net working capital is largely due to an increase of current maturities associated with our 2014 Credit Agreement debt, coupled with the sale of our St. Louis radio assets, which were classified as current assets held for sale as of February 28, 2018.

Pursuant to ASC Topic 205-40, *Going Concern*, the Company is required to evaluate whether there is substantial doubt about its ability to continue as a going concern each reporting period. In evaluating the Company’s ability to continue as a going concern for this reporting period, management evaluated the conditions and events that could raise substantial doubt about the Company’s ability to continue as a going concern within one year of the date the financial statements were issued (January 10, 2019). Management considered the Company’s current projections of future cash flows, current financial condition, sources of liquidity and debt obligations due on or before January 10, 2020.

The Company’s revolver expired on August 31, 2018 and its term loan is due no later than April 18, 2019. As of November 30, 2018, the Company had \$28.0 million outstanding under its term loan, and has approximately \$9 million of cash on hand. The Company believes it can fund its operational needs with its cash on hand and cash generated from operations, but will not be able to repay its term loan by April 18, 2019 absent other actions.

Management is currently exploring a number of options that would allow the Company to repay its term loan by April 18, 2019. Management believes that it is probable that it will refinance its remaining term loan under the 2014 Credit Agreement prior to April 18, 2019. The Company has successfully refinanced its credit agreement debt many times in the past. Recent asset sales and associated term loan repayments have significantly reduced the Company’s leverage ratio. Dramatic cost reductions recently enacted within our emerging technologies operations improves our profitability prospectively. Management believes these actions have enhanced our ability to refinance our term loan. Management is also exploring several alternatives that would further reduce our term loan obligations and our ability to refinance, including the sale of WLIB-AM in New York City and other assets.

Management’s intention and belief that the credit agreement debt will be refinanced prior to April 18, 2019 assumes, among other things, that the Company will continue to be successful in implementing its business strategy and that there will be no material adverse developments in its business, liquidity or capital requirements. If one or more of these factors do not occur as expected, it could cause a default under the Company’s credit agreement.

Operating Activities

Cash used in operating activities for the nine-month period ended November 30, 2017 was \$3.4 million versus cash provided by operating activities for the nine-month period ended November 30, 2018 of \$3.1 million. The increase in cash provided by operating activities is mostly due to a decrease in cash paid for interest as a result of lower outstanding debt balances after the completion of the sale of KPWR-FM on August 1, 2017 and our St. Louis radio stations on April 30, 2018.

Investing Activities

Cash provided by investing activities was \$78.9 million and \$60.0 million for the nine-month periods ended November 30, 2017 and 2018, respectively. During the nine-month period ended November 30, 2018, we closed on the sale of four radio stations and related tower sites in St. Louis and received \$60.2 million in proceeds. Capital expenditures for the nine-month period ended November 30, 2018 were approximately \$0.2 million. During the nine-month period ended November 30, 2017, we closed on the sale of KPWR-FM and received \$80.1 million in proceeds. Capital expenditures for the nine-month period ended November 30, 2017 were approximately \$1.2 million. We expect capital expenditures to be approximately \$0.4 million in the current fiscal year, compared to \$1.8 million in fiscal 2018. 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 on hand and cash generated from operating activities.

Financing Activities

Cash used in financing activities was \$82.9 million and \$59.2 million for the nine-month periods ended November 30, 2017 and 2018, respectively. During the nine-month period ended November 30, 2017, cash used in financing activities mostly related to net debt repayments of \$77.6 million, distributions paid to noncontrolling interests of \$3.6 million, and debt-related costs of \$1.6 million. During the nine-month period ended November 30, 2018, cash used in financing activities mostly related to net repayments of debt of \$55.4 million and distributions paid to noncontrolling interests of \$3.8 million.

As of November 30, 2018, Emmis had \$28.0 million of borrowings under the 2014 Credit Agreement and \$59.2 million (\$49.0 million related to 98.7FM in New York, \$6.2 million related to Digonex, and \$4.0 million related to NextRadio) of non-recourse debt. Borrowings under the 2014 Credit Agreement bear interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. As of November 30, 2018, our weighted average borrowing rate under our 2014 Credit Agreement was approximately 9.9%. The non-recourse debt related to 98.7FM in New York bears interest at 4.1% per annum, the non-recourse debt related to Digonex bears interest at 5.0% per annum, and the non-recourse debt related to NextRadio bears interest at 6.0% per annum.

The debt service requirements of Emmis over the next twelve-month period are expected to be \$29.1 million related to our 2014 Credit Agreement, as amended, (\$28.0 million of principal repayments and \$1.1 million of interest payments) and \$8.9 million related to our 98.7FM non-recourse debt (\$7.0 million of principal repayments and \$1.9 million of interest payments). Digonex non-recourse debt (\$6.2 million face amount, \$6.0 million carrying amount as of November 30, 2018) is due in December 2020 and NextRadio non-recourse debt is due in December 2021. 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, 2018 and the weighted average interest rate as of the same date.

The revolver under our 2014 Credit Agreement expired on August 31, 2018. No letters of credit were outstanding. We are required to comply with certain operating covenants and financial ratios under the 2014 Credit Agreement. Emmis was in compliance with these covenants as of November 30, 2018. As part of our business strategy, we continually evaluate potential acquisitions of 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.

Intangibles

As of November 30, 2018, approximately 71% 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.

During the quarter ended August 31, 2017, Emmis filed suit against Hour Media Group, LLC ("Hour") for breach of the asset purchase agreement related to the February 28, 2017 sale of *Los Angeles Magazine*, *Atlanta Magazine*, *Cincinnati Magazine* and *Orange Coast Magazine*. Hour filed a counterclaim against Emmis alleging that Emmis engaged in a series of actions that constitute a breach of the asset purchase agreement. The parties agreed to settle this dispute in May 2018. As part of the mutual settlement, all claims and counterclaims were dismissed with Emmis and Hour receiving \$0.45 million and \$0.2 million of the cash held in escrow, respectively. The Company recognized a loss of \$0.2 million related to this settlement during the nine months ended November 30, 2018 which is included in gain on sale of assets, net of disposition costs in the accompanying condensed consolidated financial statements.

Emmis filed suit against Illinois National Insurance Company ("INIC") in 2015 related to INIC's decision to not cover Emmis' defense costs under Emmis' directors and officers insurance policy in a lawsuit related to the Company's preferred stock in which Emmis was the defendant (the "Prior Litigation"). On March 21, 2018, Emmis was granted summary judgment entitling it to coverage of its defense costs in the Prior Litigation. On October 10, 2018, Emmis and INIC agreed that the amount of Emmis' damages are \$3.5 million. On November 7, 2018, INIC appealed the District Court's summary judgment determination that the insurance policy covers Emmis' defense costs. Accordingly, Emmis cannot estimate the amount or timing of a recovery, if any.

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, 2018 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. However, during the quarter ended November 30, 2018, we upgraded our human capital management system to a newer, cloud-based system. In connection with this upgrade, we enhanced the design of our internal control over financial reporting. Specifically, a number of manual processes were automated as a result of the upgrade.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended November 30, 2018, 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, 2018:

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, 2018 - September 30, 2018	—	\$ —	—	\$ —
October 1, 2018 - October 31, 2018	11,841	\$ 4.37	—	\$ —
November 1, 2018 - November 30, 2018	—	\$ —	—	\$ —
	<u>11,841</u>		<u>—</u>	

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 July 7, 2016		8-K		3.1	7/7/2016
3.2	Second Amended and Restated Bylaws of Emmis Communications Corporation		10-K	2/28/2013	3.2	5/8/2013
4.1	Form of stock certificate for Class A common stock		S-1		3.5	12/22/1993
31.1	Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act	X				
31.2	Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act	X				
32.1	Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				

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.

Date: January 10, 2019

EMMIS COMMUNICATIONS CORPORATION

By: /s/ RYAN A. HORNADAY

Ryan A. Hornaday

Executive Vice President, Chief Financial Officer and
Treasurer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffrey H. Smulyan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmis Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 10, 2019

/s/ JEFFREY H. SMULYAN

Jeffrey H. Smulyan

Chairman of the Board and
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Ryan A. Hornaday, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmis Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 10, 2019

/s/ RYAN A. HORNADAY

Ryan A. Hornaday

Executive Vice President, Chief Financial Officer and
Treasurer

SECTION 1350 CERTIFICATION

The undersigned hereby certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Emmis Communications Corporation (the “Company”), that, to his knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended November 30, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 10, 2019

/s/ JEFFREY H. SMULYAN

Jeffrey H. Smulyan
Chairman of the Board and
Chief Executive Officer

SECTION 1350 CERTIFICATION

The undersigned hereby certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Emmis Communications Corporation (the “Company”), that, to his knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended November 30, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 10, 2019

/s/ RYAN A. HORNADAY

Ryan A. Hornaday

Executive Vice President, Chief Financial Officer and
Treasurer