

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

- Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
for the Fiscal Year Ended February 28, 2019
- Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
for the Transition Period from _____ to _____.

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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A common stock, \$0.01 par value	EMMS	Nasdaq Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all documents and 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 every Interactive Data File required to be submitted 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 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"/>	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

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of August 31, 2018, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$52,581,000.

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

11,856,200	Class A Common Shares, \$.01 par value
1,242,366	Class B Common Shares, \$.01 par value
0	Class C Common Shares, \$.01 par value

DOCUMENTS INCORPORATED BY REFERENCE

Documents

Proxy Statement for 2019 Annual Meeting of Shareholders
expected to be filed within 120 days

Form 10-K Reference

Part III

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES

FORM 10-K

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CERTAIN DEFINITIONS

Unless the context requires otherwise, all references in this report to “Emmis,” “the Company,” “we,” “our,” “us,” and similar terms refer to Emmis Communications Corporation and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

This report includes or incorporates forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these forward-looking statements by our use of words such as “intend,” “plan,” “may,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity” and similar expressions, whether in the negative or affirmative. We cannot guarantee that we will achieve these plans, intentions or expectations. All statements regarding our expected financial position, business and financing plans are forward-looking statements.

Actual results or events could differ materially from the plans, intentions or expectations disclosed in the forward-looking statements we make. We have included important facts in various cautionary statements in this report that we believe could cause our actual results to differ materially from forward-looking statements that we make. These include, but are not limited to, the factors described in Part I, Item 1A, “Risk Factors.”

The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. We undertake no obligation to update or revise any forward-looking statements because of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS.

GENERAL

We are a diversified media company, principally focused on radio broadcasting. Emmis owns 11 FM and 3 AM radio stations in New York, Indianapolis, and Austin (Emmis has a 50.1% controlling interest in Emmis' radio stations located there). One of the FM radio stations that Emmis currently owns in New York is operated pursuant to a Local Marketing Agreement ("LMA") whereby a third party provides the programming for the station and sells all advertising within that programming. In addition to our radio properties, we also publish *Indianapolis Monthly* and operate Digonex Technologies, Inc. ("Digonex"), a dynamic pricing business.

BUSINESS STRATEGY

We are committed to improving the operating results of our core assets while simultaneously seeking future growth opportunities in new businesses. Our strategy is focused on the following operating principles:

Develop unique and compelling content and strong local brands

Most of our established local media brands have achieved and sustained a leading position in their respective market segments over many years. Knowledge of local markets and consistently producing unique and compelling content that meets the needs of our target audiences are critical to our success. As such, we make substantial investments in areas such as market research, data analysis and creative talent to ensure that our content remains relevant, has a meaningful impact on the communities we serve and reinforces the core brand image of each respective property.

Extend the reach and relevance of our local brands through digital platforms

In recent years, we have placed substantial emphasis on enhancing the distribution of our content through digital and mobile platforms. We believe these digital platforms offer excellent opportunities to further enhance the relationships we have with our audiences by allowing them to consume and share our content in new ways and providing us with new distribution channels for one-to-one communication with them.

Deliver results to advertisers

Competition for advertising revenue is intense and becoming more so. To remain competitive, we focus on sustaining and growing our audiences, optimizing our pricing strategy and developing innovative marketing programs for our clients that allow them to interact with our audiences in more direct and measurable ways. These programs often include elements such as on-air endorsements, events, contests, special promotions, Internet advertising, email marketing, interactive mobile advertising and online video. Our ability to deploy multi-touchpoint marketing programs allows us to deliver a stronger return-on-investment for our clients while simultaneously generating ancillary revenue streams for our media properties.

Extend sales efforts into new market segments

Given the competitive pressures in many of our "traditional" advertising categories, we have been expanding our network of advertiser relationships into not-for-profits, political advertising, corporate philanthropy, environmental initiatives and government agencies. These efforts primarily focus on the health care and education sectors. We believe our capabilities can address these clients' under-served needs.

Enhance the efficiency of our operations

We believe it is essential that we operate our businesses as efficiently as possible. We regularly review our business operations and reduce costs or realign resources as necessary. We have also invested in common technology platforms across all of our radio stations to help further standardize our business processes.

Pursue new businesses that display better growth characteristics

Advertising revenues in our radio and magazine businesses remain under heavy pressure by new forms of digital media. We have experienced steady declines in our advertising revenues, partially offset by the growth we have been able to generate from our events and digital initiatives. In recent years, we have been divesting radio stations and magazines to repay our indebtedness and reduce our exposure to these businesses. We intend to continue to explore diversification of our business and seek to acquire new businesses with proven business models and strong growth prospects where we can apply our marketing, management and restructuring expertise to accelerate growth.

RADIO STATIONS

In the following table, “Market Rank by Revenue” is the ranking of the market revenue size of the principal radio market served by our stations among all radio markets in the United States. Market revenue rankings are from BIA/Kelsey’s Media Access Pro database as of March 19, 2019. “Ranking in Primary Demographic Target” is the ranking of the station within its designated primary demographic target among all radio stations in its market based on the March 2019 Nielsen Audio, Inc. (“Nielsen”) Portable People Meter results. A “t” indicates the station tied with another station for the stated ranking. “Station Audience Share” represents a percentage generally computed by dividing the average number of persons in the primary demographic listening to a particular station during specified time periods by the average number of such persons in the primary demographic for all stations in the market area as determined by Nielsen.

STATION AND MARKET	MARKET RANK BY REVENUE	FORMAT	PRIMARY DEMOGRAPHIC TARGET AGES	RANKING IN PRIMARY DEMOGRAPHIC TARGET	STATION AUDIENCE SHARE
New York, NY ¹	2				
WQHT-FM		Hip-Hop	18-34	3t	7.3
WBLS-FM		Urban Adult Contemporary	25-54	2	6.6
WLIB-AM		Urban Gospel	25-54	40t	0.1
Austin, TX	31				
KLBJ-AM		News/Talk	25-54	14	2.7
KLZT-FM		Mexican Regional	18-34	2	8.4
KBPA-FM		Adult Hits	25-54	3	7.8
KLBJ-FM		Album Oriented Rock	25-54	7t	4.7
KGSR-FM ²		Soft Adult Contemporary	25-54	N/A	N/A
KROX-FM		Alternative Rock	18-34	7t	5.8
Indianapolis, IN	37				
WFNI-AM		Sports Talk	25-54	18	2.1
WYXB-FM		Soft Adult Contemporary	25-54	3t	7.2
WLHK-FM		Country	25-54	1	8.1
WIBC-FM		News/Talk	35-64	6	5.7

¹ Our fourth owned station in New York, WEPN-FM, is being operated pursuant to an LMA. Under the terms of the LMA, New York AM Radio LLC, a subsidiary of Disney Enterprises, Inc., provides the programming for the station and sells all advertising within that programming. Emmis continues to own and operate WEPN-FM.

² On March 8, 2019, we moved our Austin City Limits branded format from 93.3FM to our FM translator broadcasting on 97.1FM. KGSR-FM was rebranded as Star 93.3 with a soft adult contemporary format. The ranking and audience share listed above for the 93.3FM signal is not applicable since the station’s format changed during the month.

In addition to our other radio broadcasting operations, we own and operate Network Indiana, a radio network that provides news and other programming to approximately 70 affiliated radio stations in Indiana.

NEW TECHNOLOGIES

We believe that the growth of new technologies not only presents challenges, but also opportunities for broadcasters and publishers. The primary challenge is increased competition for the time and attention of our listeners and readers. The primary opportunity is to further enhance the relationships we already have with our listeners and readers by expanding products and services offered by our radio stations and *Indianapolis Monthly* and to increase distribution to in-home devices like smart speakers as well as portable devices like smartphones and tablets.

COMMUNITY INVOLVEMENT

We believe that to be successful, we must be integrally involved in the communities we serve. We see ourselves as community partners. To that end, each of our radio stations and *Indianapolis Monthly* participate in many community programs, fundraisers and activities that benefit a wide variety of causes. Charitable organizations that have been the beneficiaries of our contributions, marathons, walkathons, concerts, fairs and festivals include, among others, The Salvation Army, Wish for Heroes, Habitat for Humanity, United Way, Juvenile Diabetes Research Foundation, Make-A-Wish Foundation, March of Dimes, American Red Cross, St. Jude, and the Harlem Chamber of Commerce.

The National Association of Broadcasters Education Foundation (“NABEF”) has honored us with the Hubbard Award, honoring a broadcaster “for extraordinary involvement in serving the community.” Emmis was the second broadcaster to receive this prestigious honor,

after the Hubbard family, for which the award is named. The NABEF also recognized Emmis' WQHT-FM in New York for its outreach after Hurricane Sandy, both for the news coverage it provided and the relief efforts it organized in the weeks after the storm. WIBC-FM was nominated for a national Crystal Award from the National Association of Broadcasters for our efforts in the community in 2014 and in 2016, and WBLN-FM won a national Crystal Award in 2017. Also, our chief executive officer received the 2017 Michael A. Carroll award, a prestigious award given by the Indianapolis Business Journal to a person who has worked to improve the central Indiana community.

INDUSTRY INVOLVEMENT

We have an active leadership role in a wide range of industry organizations. Our senior managers have served in various capacities with industry associations, including as directors of the National Association of Broadcasters, the Radio Advertising Bureau, the Radio Futures Committee, the Nielsen Audio Advisory Council, the Media Financial Management Association, the City and Regional Magazine Association and as founding members of the Magazine Publishers of America. Our chief executive officer has been honored with the National Association of Broadcasters' "National Radio Award," was named Radio Ink's "Radio Executive of the Year," and was named the 2017 recipient of the Broadcasters Foundation of America's "Lowry Mays Excellence in Broadcasting Award." In 2018, our chief financial officer was awarded Media Financial Management's "Rainmaker Award" recognizing his efforts and contributions in helping Media Financial Management's growth initiatives. Our other management and on-air personalities have won numerous industry awards.

COMPETITION

Radio broadcasting stations compete with the other broadcasting stations in their respective market areas, as well as with other advertising media such as newspapers, cable, magazines, outdoor advertising, transit advertising, the Internet, satellite radio, direct marketing and mobile and wireless device marketing. Competition within the broadcasting industry occurs primarily in individual market areas, so that a station in one market (e.g., New York) does not generally compete with stations in other markets (e.g., Austin). In each of our markets, our stations face competition from other stations with substantial financial resources, including stations targeting the same demographic groups. In addition to management experience, factors that are material to competitive position include the station's rank in its market in terms of the number of listeners, authorized power, assigned frequency, audience characteristics, local program acceptance and the number and characteristics of other stations in the market area. We attempt to improve our competitive position with programming and promotional campaigns aimed at the demographic groups targeted by our stations. We also seek to improve our position through sales efforts designed to attract advertisers that have done little or no radio advertising by emphasizing the effectiveness of radio advertising in increasing the advertisers' revenues. The policies and rules of the Federal Communications Commission (the "FCC") permit certain joint ownership and joint operation of local stations. Most of our radio stations take advantage of these joint arrangements in an effort to lower operating costs and to offer advertisers more attractive rates and services. Although we believe that each of our stations can compete effectively in its market, there can be no assurance that any of our stations will be able to maintain or increase its current audience ratings or advertising revenue market share.

Although the broadcasting industry is highly competitive, barriers to entry exist. The operation of a broadcasting station in the United States requires a license from the FCC. Also, the number of stations that can operate in a given market is limited by the availability of the frequencies that the FCC will license in that market, as well as by the FCC's multiple ownership rules regulating the number of stations that may be owned or controlled by a single entity, and cross ownership rules which limit the types of media properties in any given market that can be owned by the same person or company.

ADVERTISING SALES

Our stations derive their advertising revenue from local and regional advertising in the marketplaces in which they operate, as well as from the sale of national advertising. Local and most regional sales are made by a station's or magazine's sales staff. National sales are made by firms specializing in such sales, which are compensated on a commission-only basis. We believe that the volume of national advertising revenue tends to adjust to shifts in a station's audience share position more rapidly than does the volume of local and regional advertising revenue. During the year ended February 28, 2019, approximately 14% of our total advertising revenues were derived from national sales, and 86% were derived from local sales.

EMPLOYEES

As of February 28, 2019, Emmis had approximately 350 full-time employees and approximately 210 part-time employees. Approximately 30 employees are represented by unions at our various radio stations. We consider relations with our employees to be good.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Listed below is certain information about the executive officers of Emmis or its affiliates who are not directors or nominees to be directors.

NAME	POSITION	AGE AT FEBRUARY 28, 2019	YEAR FIRST ELECTED OFFICER
Paul V. Brenner	Advisor, President of the Broadcaster Traffic Consortium LLC	50	2008
J. Scott Enright	Executive Vice President, General Counsel and Secretary	56	1998
Ryan A. Hornaday	Executive Vice President, Chief Financial Officer and Treasurer	45	2006
Gregory T. Loewen	President - Publishing Division and Chief Strategy Officer	47	2007

Mr. Brenner was appointed Advisor, President of the Broadcaster Traffic Consortium in March 2019. Previously, Mr. Brenner served as President – TagStation/NextRadio from March 2016 to February 2019, as Senior Vice President and Chief Technology Officer from October 2012 to February 2016, and as Vice President – Integrated Technologies from May 2008 to September 2012. Mr. Brenner joined Emmis in 1998 and ceased to be an executive officer on February 28, 2019.

Mr. Enright was appointed Executive Vice President, General Counsel and Secretary in March 2009. Previously, Mr. Enright served as Senior Vice President, Associate General Counsel and Secretary of Emmis from September 2006 to February 2009 and as Vice President, Associate General Counsel and Assistant Secretary from the date he joined Emmis in October 1998, adding the office of Secretary in 2002.

Mr. Hornaday was appointed Executive Vice President, Chief Financial Officer and Treasurer in August 2015. Previously, Mr. Hornaday served as Senior Vice President - Finance and Treasurer from December 2008 to July 2015. Mr. Hornaday joined Emmis in 1999.

Mr. Loewen was appointed President – Publishing Division and Chief Strategy Officer in March 2010. Mr. Loewen has also served as President of Digonex since our acquisition of a controlling interest in June 2014. Previously, Mr. Loewen served as Chief Strategy Officer from February 2007 to February 2010. Prior to joining Emmis in February 2007, Mr. Loewen served as Vice President of Digital Media and Strategy for The Toronto Star

INTERNET ADDRESS AND INTERNET ACCESS TO SEC REPORTS

Our Internet address is www.emmis.com. Through our Internet website, free of charge, you may obtain copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports will be available the same day we electronically file such material with, or furnish such material to, the SEC. We have been making such reports available on the same day they are filed during the period covered by this report.

FEDERAL REGULATION OF BROADCASTING

Radio broadcasting in the United States is subject to the jurisdiction of the FCC under the Communications Act of 1934 (the “Communications Act”), as amended in part by the Telecommunications Act of 1996 (the “1996 Act”). Radio broadcasting is prohibited except in accordance with a license issued by the FCC upon a finding that the public interest, convenience and necessity would be served by the grant of such license. The FCC has the power to revoke licenses for, among other things, false statements made in applications or willful or repeated violations of the Communications Act or of FCC rules. In general, the Communications Act provides that the FCC shall allocate broadcast licenses for radio stations in such a manner as will provide a fair, efficient and equitable distribution of service throughout the United States. The FCC determines the operating frequency, location and power of stations; regulates the equipment used by stations; and regulates numerous other areas of radio broadcasting pursuant to rules, regulations and policies adopted under authority of the Communications Act. The Communications Act, among other things, prohibits the assignment of a broadcast license or the transfer of control of an entity holding such a license without the prior approval of the FCC. Under the Communications Act, the FCC also regulates certain aspects of media that compete with broadcast stations.

The following is a brief summary of certain provisions of the Communications Act and of specific FCC regulations and policies. Reference should be made to the Communications Act as well as FCC rules, public notices and rulings for further information concerning the nature and extent of federal regulation of radio stations. Legislation has been introduced from time to time which would amend the Communications Act in various respects, and the FCC from time to time considers new regulations or amendments to its existing regulations. We cannot predict whether any such legislation will be enacted or whether new or amended FCC regulations will be adopted or what their effect would be on Emmis.

LICENSE RENEWAL. Radio stations operate pursuant to broadcast licenses that are ordinarily granted by the FCC for maximum terms of eight years and are subject to renewal upon approval by the FCC. The following table sets forth our FCC license expiration dates in addition to the call letters, license classification, antenna elevation above average terrain (for our FM stations only), power and frequency of all owned stations as of April 1, 2019:

Radio Market	Stations	City of License	Frequency	Expiration Date of License ¹	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts)
New York, NY	WQHT-FM	New York, NY	97.1	June 2022	B	1,339	6.7
	WBLS-FM	New York, NY	107.5	June 2022	B	1,362	4.2
	WLIB-AM	New York, NY	1190	June 2022	B	N/A	10 D / 30 N
	WEPN-FM	New York, NY	98.7	June 2022	B	1,362	6
Austin, TX	KBPA-FM	San Marcos, TX	103.5	August 2021	C0	1,257	100
	KGSR-FM	Cedar Park, TX	93.3	August 2021	C	1,926	100
	KLZT-FM	Bastrop, TX	107.1	August 2021	C2	499	49
	KLBJ-AM	Austin, TX	590	August 2021	B	N/A	5 D / 1 N
	KLBJ-FM	Austin, TX	93.7	August 2021	C	1,050	97
	KROX-FM	Buda, TX	101.5	August 2021	C2	847	12.5
Indianapolis, IN	WFNI-AM	Indianapolis, IN	1070	August 2020	B	N/A	50 D / 10 N
	WLHK-FM	Shelbyville, IN	97.1	August 2020	B	732	23
	WIBC-FM	Indianapolis, IN	93.1	August 2020	B	991	13.5
	WYXB-FM	Indianapolis, IN	105.7	August 2020	B	492	50

¹ Under the Communications Act, a license expiration date is extended automatically pending action on the renewal application.

Under the Communications Act, at the time an application is filed for renewal of a station license, parties in interest, as well as members of the public, may apprise the FCC of the service the station has provided during the preceding license term and urge the denial of the application. If such a petition to deny presents information from which the FCC concludes (or if the FCC concludes on its own motion) that there is a “substantial and material” question as to whether grant of the renewal application would be in the public interest under applicable rules and policy, the FCC may conduct a hearing on specified issues to determine whether the renewal application should be granted. The Communications Act provides for the grant of a renewal application upon a finding by the FCC that the licensee:

- has served the public interest, convenience and necessity;
- has committed no serious violations of the Communications Act or the FCC rules; and
- has committed no other violations of the Communications Act or the FCC rules which would constitute a pattern of abuse.

If the FCC cannot make such a finding, it may deny the renewal application, and only then may the FCC consider competing applications for the same frequency. In a vast majority of cases, the FCC renews a broadcast license even when petitions to deny have been filed against the renewal application.

REVIEW OF OWNERSHIP RESTRICTIONS. The FCC is required by statute to review all of its broadcast ownership rules on a quadrennial basis (*i.e.*, every four years) and to repeal or modify any of its rules that are no longer “necessary in the public interest.”

Despite several such reviews and appellate remands, the FCC’s rules limiting the number of radio stations that may be commonly owned in a local market have remained largely intact since their initial adoption following the 1996 Act. The FCC’s previous ownership reviews have been subject to litigation. The most recent court decision was issued by the Third Circuit in May 2016 and concerned the FCC’s then-pending 2010 and 2014 reviews. In August 2016, the FCC concluded its 2010 and 2014 reviews, deciding to retain the local radio ownership rule as well as several other media ownership rules, without significant alteration. Various parties appealed the FCC’s August 2016 order, and other parties filed petitions for reconsideration. In November 2017, the FCC issued a decision on reconsideration of the August 2016 Order which, while making only a minor change to the local radio ownership rule (discussed below), eliminated the restrictions on newspaper/broadcast cross-ownership and radio/television cross-ownership and relaxed the local television ownership rule. Several parties have jointly appealed the FCC’s November 2017 order, and their appeal remains pending. In December 2018, the FCC commenced its 2018 quadrennial review of its media ownership regulations. Among other things, the FCC is seeking comment on all aspects of the local radio ownership rule’s implementation and whether the current version of the rule remains necessary in the public interest. We cannot predict whether the appeal or current review proceeding will result in modifications of the ownership rules or the impact (if any) that such modifications would have on our business.

The discussion below reviews the pertinent ownership rules currently in effect as a result of the FCC’s August 2016 and November 2017 orders.

Local Radio Ownership:

The local radio ownership rule limits the number of commercial radio stations that may be owned by one entity in a given radio market based on the number of radio stations in that market:

- if the market has 45 or more radio stations, one entity may own up to eight stations, not more than five of which may be in the same service (AM or FM);

- if the market has between 30 and 44 radio stations, one entity may own up to seven stations, not more than four of which may be in the same service;
- if the market has between 15 and 29 radio stations, one entity may own up to six stations, not more than four of which may be in the same service; and
- if the market has 14 or fewer radio stations, one entity may own up to five stations, not more than three of which may be in the same service, however one entity may not own more than 50% of the stations in the market.

Each of the markets in which our radio stations are located has at least 30 radio stations.

For purposes of applying these numerical limits, the FCC has also adopted rules with respect to (i) so-called local marketing agreements, or “LMAs,” by which the licensee of one radio station provides programming for another licensee’s radio station in the same market and sells all of the advertising within that programming and (ii) so-called joint sale agreements, or “JSAs,” by which the licensee of one station sells the advertising time on another station in the market. Under these rules, an entity that owns one or more radio stations in a market and programs more than 15% of the broadcast time, or sells more than 15% of the advertising time, on another radio station in the same market pursuant to an LMA or JSA is generally required to count the station toward its media ownership limits even though it does not own the station. As a result, in a market where we own one or more radio stations, we generally cannot provide programming to another station under an LMA, or sell advertising on another station pursuant to a JSA, if we could not acquire that station under the local radio ownership rule. In its August 2016 order, the FCC declined to make other types of agreements such as “shared services agreements” (or “SSAs”) and/or “local news service” agreements, attributable, and adopted a disclosure requirement for SSAs between commercial television stations.

On April 26, 2012, a subsidiary of Emmis entered into an LMA with New York AM Radio, LLC pursuant to which, commencing April 30, 2012, it began purchasing from Emmis the right to provide programming on radio station WEPN-FM, 98.7 FM, New York, NY until August 31, 2024, subject to certain conditions. Disney Enterprises, Inc., the parent company of New York AM Radio, LLC, has guaranteed the obligations under the LMA. Emmis’ subsidiary will retain ownership of the 98.7 FM FCC license during the term of the LMA and received an annual fee of \$8.4 million for the first year of the term under the LMA, which fee increases by 3.5% each year thereafter until the LMA’s termination.

Although the FCC’s quadrennial review decisions have not changed the numerical caps under the local radio rule, the FCC adjusted the rule in June 2003 by deciding that both commercial and noncommercial stations could be counted in determining the number of stations in a radio market. The decision also altered the definition of the relevant local market for purposes of the rule. The FCC “grandfathered” existing station “clusters” not in compliance with the numerical caps as calculated pursuant to the new market definition, but provided that they could be sold intact only to small businesses meeting certain requirements. In December 2007, the FCC expanded this policy to allow an owner to sell a grandfathered station cluster to *any* buyer, so long as the buyer committed to file, within 12 months, an application with the FCC to transfer the excess station(s) to an eligible small business or to a trust for ultimate sale to such an entity. Although the Third Circuit vacated the FCC’s selected definition of small businesses eligible to purchase clusters that exceed the numerical limits in 2011, the FCC reinstated that definition in its August 2016 order. The change in market definition appears to impact the Austin, Texas market, such that we exceed the numerical cap for FM stations. If we chose to sell our Austin cluster of stations and we were not able to obtain a waiver from the current ownership regulations, we would likely have to “spin off” one FM station to a separate buyer or to transfer the cluster to an entity meeting the FCC’s small business definition, and such a spin-off would require the consent of our minority partner. In the November 2017 Order, the FCC adopted a presumptive waiver standard for so called “embedded markets” (*i.e.*, smaller markets, as defined by Nielsen Audio, that are included in a larger parent market), and will reexamine its approach to embedded markets as part of the 2018 quadrennial review.

Cross-Media Ownership:

Prior to the November 2017 Order, the FCC’s rules generally restricted the common ownership of (1) certain combinations of radio and television stations and (2) a daily newspaper and a radio or television station in the same local market. The November 2017 Order, which has, as noted above, been appealed, eliminated these restrictions.

ATTRIBUTION OF OWNERSHIP INTERESTS. In applying its ownership rules, the FCC has developed specific criteria that it uses to determine whether a certain ownership interest or other relationship with an FCC licensee is significant enough to be “attributable” or “cognizable” under its rules. Specifically, among other relationships, certain stockholders, officers and directors of a broadcasting company are deemed to have an attributable interest in the licenses held by that company, such that there would be a violation of the FCC’s rules where the broadcasting company and such a stockholder, officer or director together hold attributable interests in more than the permitted number of stations or a prohibited combination of outlets in the same market. The FCC’s regulations generally deem the following relationships and interests to be attributable for purposes of its ownership restrictions:

- all officer and director positions in a licensee or its direct/indirect parent(s);
- voting stock interests of at least 5% (or 20%, if the holder is a passive institutional investor, *i.e.*, a mutual fund, insurance company or bank);
- any equity interest in a limited partnership or limited liability company where the limited partner or member has not been “insulated” from the media-related activities of the LP or LLC pursuant to specific FCC criteria;

- equity and/or debt interests which, in the aggregate, exceed 33% of the total asset value of a station or other media entity (the “equity/debt plus policy”), if the interest holder supplies more than 15% of the station’s total weekly programming (usually pursuant to a time brokerage, local marketing or network affiliation agreement) or is a same-market media entity (*i.e.*, broadcast company or newspaper). In December 2007, the FCC increased these limits under certain circumstances where the equity and/or debt interests are in a small business meeting certain requirements. Although the Third Circuit vacated the FCC’s selected definition of small businesses eligible to take advantage of these increased limits in 2011, the FCC reinstated that definition in its August 2016 order.

To assess whether a voting stock interest in a direct or indirect parent corporation of a broadcast licensee is attributable, the FCC uses a “multiplier” analysis in which non-controlling voting stock interests are deemed proportionally reduced at each non-controlling link in a multi-corporation ownership chain.

Under existing FCC policy, in the case of corporations having a “single majority shareholder,” the interests of minority shareholders are generally not deemed attributable. Because Jeffrey H. Smulyan’s voting interest in the Company currently exceeds 50%, this exemption appears to apply to the Company. Elimination of the exemption is, however, under consideration by the FCC. If the exemption is eliminated, or if Mr. Smulyan’s voting interest falls to or below 50%, then the interests of any minority shareholders that meet or exceed the thresholds described above would become attributable and would be combined with the Company’s interests for purposes of determining compliance with FCC ownership rules.

Ownership-rule conflicts arising as a result of aggregating the media interests of the Company and its attributable shareholders could require divestitures by either the Company or the affected shareholders. Any such conflicts could result in Emmis being unable to obtain FCC consents necessary for future acquisitions. Conversely, Emmis’ media interests could operate to restrict other media investments by shareholders having or acquiring an interest in Emmis.

ALIEN OWNERSHIP. Under the Communications Act, no FCC license may be held by a corporation if more than one-fifth of its capital stock is owned or voted by aliens or their representatives, a foreign government or representative thereof, or an entity organized under the laws of a foreign country (collectively, “Non-U.S. Persons”). Furthermore, the Communications Act provides that no FCC license may be granted to an entity directly or indirectly controlled by another entity of which more than one-fourth of its capital stock is owned or voted by Non-U.S. Persons if the FCC finds that the public interest will be served by the denial of such license. The FCC staff had interpreted this provision to require an affirmative public interest finding to permit the grant or holding of a license, and had made such a finding only in limited circumstances. In November 2013 the FCC clarified that it would accept requests to allow foreign investment above 25% in broadcast holding companies, and that it would evaluate those requests on a case-by-case basis to determine whether the requesting party had provided a sufficient public interest showing. In September 2016, the FCC adopted rules to simplify and streamline the process for requesting authority to exceed the 25% indirect foreign ownership limit in broadcast licensees and revised the methodology that publicly traded broadcasters must use to assess their compliance with the foreign ownership restrictions. The foregoing restrictions on alien ownership apply in modified form to other types of business organizations, including partnerships and limited liability companies. In addition, an LMA with a foreign owned company is not prohibited as long as the non-foreign holder of the FCC license continues to control and operate the station. Our Second Amended and Restated Articles of Incorporation and Second Amended and Restated Code of By-Laws authorize the Board of Directors to prohibit such restricted alien ownership, voting or transfer of capital stock as would cause Emmis to violate the Communications Act or FCC regulations.

ASSIGNMENTS AND TRANSFERS OF CONTROL. The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast licensee without the prior approval of the FCC. In determining whether to grant such approval, the FCC considers a number of factors, including compliance with the various rules limiting common ownership of media properties, the “character” of the assignee or transferee and those persons holding attributable interests therein and compliance with the Communications Act’s limitations on alien ownership as well as other statutory and regulatory requirements. When evaluating an assignment or transfer of control application, the FCC is prohibited from considering whether the public interest might be served by an assignment of the broadcast license or transfer of control of the licensee to a party other than the assignee or transferee specified in the application.

PROGRAMMING AND OPERATION. The Communications Act requires broadcasters to serve the “public interest.” Beginning in the late 1970s, the FCC gradually relaxed or eliminated many of the more formalized procedures it had developed to promote the broadcast of certain types of programming responsive to the needs of a station’s community of license. However, licensees are still required to present programming that is responsive to community problems, needs and interests and to maintain certain records demonstrating such responsiveness.

Federal law prohibits the broadcast of obscene material at any time and the broadcast of indecent material during specified time periods; these prohibitions are subject to enforcement by the FCC and carry fines of up to \$503,349 per violation. The company has received, and may receive in the future, letters of inquiry or other notifications concerning alleged violations of the indecency rules at certain of its stations. We cannot predict the outcome of any indecency complaint proceeding or investigation or the extent or nature of future FCC enforcement actions.

The FCC’s indecency rules have also been the subject of litigation. In July 2010, the Second Circuit held the FCC’s indecency standards to be unconstitutionally vague in violation of the First Amendment. The Second Circuit later vacated the agency decision at issue in another appeal based on its earlier decision. The FCC challenged these rulings in the Supreme Court. In June 2012 the Supreme Court vacated the Second Circuit’s decision, finding that the FCC had failed to provide adequate notice regarding the contours of its indecency policy with respect to the broadcasts at issue in the underlying proceedings, but leaving open the possibility that the agency might be able to enforce the prohibition on broadcast indecency in the future. The Third Circuit issued a decision vacating another FCC indecency ruling in November 2011, and the Supreme Court denied the FCC’s request for review of this decision. It is not clear how the FCC will apply these judicial

decisions to outstanding complaints, including any that may involve Emmis stations, or how they will impact future FCC policies in this area. The FCC has also solicited public comment on whether, and if so how, to revise its indecency enforcement policies, in a proceeding that remains pending.

Federal law also imposes sponsorship identification (or “payola”) requirements, which mandate the disclosure of information concerning programming that is paid for by third parties. The company has received, and may receive in the future, letters of inquiry or other notifications concerning alleged violations of the sponsorship identification rules at certain of its stations. We cannot predict the outcome of any sponsorship identification complaint proceeding or investigation or the extent or nature of future FCC enforcement actions.

Stations also must pay regulatory and application fees and follow various rules promulgated under the Communications Act that regulate, among other things, political advertising, sponsorship identification, equal employment opportunities, contest and lottery advertisements, and technical operations, including limits on radio frequency radiation. Radio stations are also required to maintain an online public file where listeners and other interested parties may obtain information on the station and its activities.

Failure to observe FCC rules and policies can result in the imposition of various sanctions, including monetary fines, the grant of “short-term” (less than the maximum term) license renewals or, for particularly egregious violations, the denial of a license renewal application or the revocation of a license.

ADDITIONAL DEVELOPMENTS AND PROPOSED CHANGES. The FCC has adopted rules implementing a low power FM (“LPFM”) service, and approximately 800 such stations are in operation. In November 2007, the FCC adopted rules that, among other things, enhance LPFM’s interference protection from subsequently-authorized full-service stations. Congress then passed legislation eliminating certain minimum distance separation requirements between full-power and LPFM stations, thereby reducing the interference protection afforded to FM stations. As required by the legislation, the FCC in January 2012 submitted a report to Congress indicating that the results of a statutorily mandated economic study indicated that, on the whole, LPFM stations do not currently have, and in the future are unlikely to have, a demonstrable economic impact on full-service commercial FM radio stations. In March 2012, the FCC modified its rules to permit the processing of additional LPFM applications and to implement the legislative requirements regarding interference protection. The FCC opened a window for the filing of applications seeking authority to construct or make major changes to LPFM facilities which extended from October 15 through November 14, 2013, and in which it received more than 2,800 LPFM applications. The FCC continues to process the applications submitted during the window and, although to date there have been very few, if any, instances of LPFM stations interfering with full-power radio stations, we cannot predict whether any LPFM stations will actually interfere with the coverage of our radio stations in the future.

In June 2009, the FCC adopted rules that allow an AM radio station to use currently authorized FM translator stations to retransmit the AM station’s programming within the AM station’s authorized service area. In October 2015, the FCC issued an Order that adopted a two-stage process for AM radio stations to acquire additional FM translators. The FCC has also adopted certain changes to its rules that govern AM radio stations, and has sought comment on additional changes to those rules, which remain pending.

The FCC also previously authorized the launch and operation of a satellite digital audio radio service (“SDARS”) system. In July 2008, the two original SDARS companies—Sirius Satellite Radio, Inc. and XM Satellite Radio Holdings, Inc.—merged into a new company called Sirius XM, which currently provides nationwide programming service. Sirius XM also offers channels that provide local traffic and weather information for major cities.

In October 2002, the FCC issued an order selecting a technical standard for terrestrial digital audio broadcasting (“DAB,” also known as high definition radio or “HD Radio®”). The in-band, on-channel (“IBOC”) technology chosen by the agency allows AM and FM radio broadcasters to introduce digital operations and permits existing stations to operate on their current frequencies in either full analog mode, full digital mode, or a combination of both (at reduced power). In March 2005, the FCC announced that, pending adoption of final rules, it would allow stations on an interim basis to broadcast multiple digital channels. In March 2007, the FCC adopted service rules for HD Radio®. Significantly, the FCC decided to allow FM stations to broadcast digital multicast streams without seeking prior FCC authority, to provide datacasting services, to lease excess digital capacity to third parties, and to offer subscription services pursuant to requests for experimental authority. Under these rules, FM stations may operate in the “extended hybrid mode,” which provides more flexibility for multicasting and datacasting services; and may use separate analog and digital antennas without seeking prior FCC authority. FM translators, FM boosters and low power FM stations may also broadcast digitally where feasible, and AM stations may now operate digitally during nighttime hours. The rules mandate that broadcasters offering digital service provide at least one free over-the-air signal comparable in quality to their analog signal and that they simulcast their analog programming on their main digital stream, and prohibit broadcasters from operating exclusively in digital. The FCC declined either to set any mandatory deadline for broadcasters to convert to digital operations or to impose additional public interest obligations (beyond those that already apply to analog broadcasters) on digital broadcasters. In January 2010, the FCC revised its DAB service rules to allow FM DAB stations to increase the permitted power levels of DAB transmissions. In September 2008, shortly after approving the Sirius-XM merger, the FCC sought comment on whether it should mandate the inclusion of HD Radio® features in satellite radio receivers. That proceeding remains pending, and we cannot predict its outcome or the impact that a decision might have on our business.

In order to broadcast musical compositions or to stream them over the Internet, Emmis must pay royalties to copyright owners of musical compositions (typically, songwriters and publishers). These copyright owners often rely on organizations known as performing rights organizations, which negotiate licenses with copyright users for the public performance of their compositions, collect royalties, and distribute them to copyright owners. The three major performing rights organizations, from which Emmis has licenses and to which Emmis pays royalties, are the American Society of Composers, Authors, and Publishers, Broadcast Music, Inc., and SESAC, Inc. These rates are set periodically, are often negotiated by organizations acting on behalf of broadcasters, and may increase in the future. It also is possible that songwriters or publishers may disassociate with these performing rights organizations, or that additional such organizations could emerge in the future. In 2013 a new performing rights organization, named Global Music Rights (“GMR”), was formed. GMR has obtained the rights to

certain copyrights and is seeking to negotiate individual licensing agreements with radio stations for songs within its repertoire. GMR and the Radio Music License Committee, Inc. (“RMLC”), which negotiates music licensing fees with performance rights organizations on behalf of many radio stations, have initiated antitrust litigation against one another, which remains pending. In addition, there has been litigation concerning whether the consent decrees between the Department of Justice (“DOJ”) and major performance rights organizations require so-called “full-work” licenses (which would allow a license-holder to play all of the works in a performance rights organization’s repertoire), most recently resulting in a ruling by a federal appeals court that they do not. If a significant number of musical composition copyright owners withdraw from the established performing rights organizations, if new performing rights organizations form to license compositions that are not already licensed, or if the consent decrees between the DOJ and certain major performance rights organizations are eliminated, Emmis’ royalty rates or negotiation costs could increase. Emmis’ royalty rates or negotiation costs could also change as a result of GMR/RMLC litigation or the resolution of the full-work licensing issue.

In order to stream music over the Internet, Emmis must also obtain licenses and pay royalties to the owners of copyrights in sound recordings (typically, artists and record companies). These royalties are in addition to royalties for Internet streaming that must also be paid to performance rights organizations. The Copyright Royalty Board (“CRB”) set a rate for the 2016-2020 license period for performances by non-subscription noninteractive services of 0.17 cent per listener per song, and a rate for noninteractive subscription services of 0.22 cent per listener per song, both of which are subject to changes that mirror changes in the Consumer Price Index. A proceeding to establish the rates for 2021-2025 is expected to begin in 2019.

Sound recordings fixed on or after February 15, 1972 are protected by federal copyright law. Sound recording copyright owners have asserted that state law provides copyright protection for recordings fixed before that date (“pre-72 recordings”). Sound recording copyright owners have sued radio broadcasters and digital audio transmission services for unauthorized public performances and reproductions of pre-72 recordings under various state laws. In October 2018, federal legislation was signed into law that applies a statutory licensing regime to pre-72 recordings similar to that which governs post-72 recordings. Among other things, the new law extends remedies for copyright infringement to owners of pre-72 recordings when recordings are used without authorization. The new law creates a public performance right for pre-72 recordings streamed online that may increase our licensing costs.

Legislation also has previously been introduced in Congress that would require the payment of performance royalties to artists, musicians, or record companies whose music is played on terrestrial radio stations, ending a long-standing copyright law exception. If enacted, such legislation could have an adverse impact on the cost of music programming.

Congress and the FCC also have under consideration, and may in the future consider and adopt, new laws, regulations and policies regarding a wide variety of additional matters that could, directly or indirectly, affect the operation, ownership and profitability of our broadcast stations, result in the loss of audience share and advertising revenues for our broadcast stations and/or affect our ability to acquire additional broadcast stations or finance such acquisitions. Such matters include, but are not limited to:

- proposals to impose spectrum use or other fees on FCC licensees;
- proposals to repeal or modify some or all of the FCC’s multiple ownership rules and/or policies;
- proposals to change rules relating to political broadcasting;
- technical and frequency allocation matters;
- AM stereo broadcasting;
- proposals to modify service and technical rules for digital radio, including possible additional public interest requirements for terrestrial digital audio broadcasters;
- proposals to restrict or prohibit the advertising of beer, wine and other alcoholic beverages;
- proposals to tighten safety guidelines relating to radio frequency radiation exposure;
- proposals permitting FM stations to accept formerly impermissible interference;
- proposals to reinstate holding periods for licenses;
- changes to broadcast technical requirements related to the implementation of SDARS;
- proposals to modify broadcasters’ public interest obligations;
- proposals to limit the tax deductibility of advertising expenses by advertisers; and
- proposals to regulate violence and hate speech in broadcasts.

We cannot predict whether any proposed changes will be adopted, what other matters might be considered in the future, or what impact, if any, the implementation of any of these proposals or changes might have on our business. The foregoing is only a brief summary of certain provisions of the Communications Act and of specific FCC regulations. Reference should be made to the Communications Act as well as FCC regulations, public notices and rulings for further information concerning the nature and extent of federal regulation of broadcast stations.

ITEM 1A. RISK FACTORS.

The risk factors listed below, in addition to those set forth elsewhere in this report, could affect the business and future results of the Company. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

Risks Related to our Business

Our results of operations could be negatively impacted by weak economic conditions and instability in financial markets.

We believe that advertising is a discretionary business expense. Spending on advertising tends to decline disproportionately during an economic recession or downturn as compared to other types of business spending. Consequently, a downturn in the United States economy

generally has an adverse effect on our advertising revenue and, therefore, our results of operations. A recession or downturn in the economy of any individual geographic market, particularly our largest market of New York, could have a significant adverse effect on us.

Even in the absence of a general recession or downturn in the economy, an individual business sector (such as the automotive industry) that tends to spend more on advertising than other sectors might be forced to reduce its advertising expenditures if that sector experiences a downturn. If that sector's spending represents a significant portion of our advertising revenues, any reduction in its advertising expenditures may affect our revenue.

Radio revenues in the markets in which we operate have been challenged and may remain so.

Radio revenues in the markets in which we operate have lagged the growth of the general United States economy. Our market revenues, as measured by the accounting firm Miller Kaplan Arase LLP ("Miller Kaplan"), during the years ended February 2017, 2018 and 2019 were up 1.7%, down 0.8%, and down 1.3%, respectively. During this same period, the U.S. Bureau of Economic Analysis reports that U.S. real gross domestic product growth has been approximately 2% to 3% each year. Our results of operations could be negatively impacted if radio revenue performance in the markets in which we operate continues to lag general United States economic growth.

We may lose audience share and advertising revenue to competing radio stations or other types of media.

We operate in highly competitive industries. Our radio stations compete for audiences and advertising revenue with other radio stations and station groups, as well as with other media. Shifts in population, demographics, audience tastes, consumer use of technology and forms of media and other factors beyond our control could cause us to lose market share. Any adverse change in a particular market, or adverse change in the relative market positions of the stations located in a particular market, could have a material adverse effect on our revenue or ratings, could require increased promotion or other expenses in that market, and could adversely affect our revenue in other markets. Other radio broadcasting companies may enter the markets in which we operate or may operate in the future. These companies may be larger and have more financial resources than we have. Our radio stations may not be able to maintain or increase their current audience ratings and advertising revenue in the face of such competition.

We routinely conduct market research to review the competitive position of our stations in their respective markets. If we determine that a station could improve its operating performance by serving a different demographic within its market, we may change the format of that station. Our competitors may respond to our actions by more aggressive promotions of their stations or by replacing the format we vacate, limiting our options if we do not achieve expected results with our new format.

From time to time, other stations may change their format or programming, a new station may adopt a format to compete directly with our stations for audiences and advertisers, or stations might engage in aggressive promotional campaigns. These tactics could result in lower ratings and advertising revenue or increased promotion and other expenses and, consequently, lower earnings and cash flow for us. Any failure by us to respond, or to respond as quickly as our competitors, could also have an adverse effect on our business and financial performance.

Because of the competitive factors we face, we cannot assure investors that we will be able to maintain or increase our current audience ratings and advertising revenue.

Our radio operations are heavily concentrated in the New York market.

Our radio operations in New York, including the LMA fee we receive from a subsidiary of Disney, accounted for approximately 50% of our radio revenues in fiscal 2019. Our results from operations can be materially affected by decreased ratings for our stations in New York, which could result in revenue declines for us in that market.

Our radio operations lack the scale of some of our competitors, especially in the New York market.

We currently own four stations in New York, one of which is being programmed by another broadcaster under the terms of an LMA. Some of our competitors in this market have larger clusters of radio stations. Our competitors may be able to leverage their market share to extract a greater percentage of available advertising revenues in this market and may be able to realize operating efficiencies by programming multiple stations in the market. Also, given our reliance on urban formats in New York, our results from operations can be materially affected by additional urban format competition by our competitors.

Future operation of our business may require significant additional capital.

The continued development, growth and operation of our businesses may require substantial capital. In particular, our emerging technologies, principally consisting of Digonex, are not currently profitable and need additional capital to fund their operations. Furthermore, any acquisitions may require large amounts of capital. We intend to fund our growth, including our emerging technologies and acquisitions, if any, with cash generated from operations and asset sales, and proceeds from future issuances of debt and equity, both public and private. Currently, our long-term debt agreements substantially limit our ability to make acquisitions. Our ability to raise additional debt or equity financing is subject to market conditions, our financial condition and other factors. If we cannot obtain financing on acceptable terms when needed, our results of operations, ability to fund our emerging technologies, and financial condition could be adversely impacted.

We must respond to the rapid changes in technology, services and standards that characterize our industry in order to remain competitive, and changes in technology may increase the risk of material intellectual property infringement claims.

The radio broadcasting industry is subject to rapid technological changes, evolving industry standards and the emergence of competition from new technologies and services. We cannot assure that we will have the resources to acquire new technologies or to introduce new services that could compete with these new technologies. Various media technologies and services that have been developed or introduced include:

- satellite-delivered digital audio radio service, which has resulted in subscriber-based satellite radio services with numerous niche formats;
- audio programming by cable systems, direct-broadcast satellite systems, Internet content providers and other digital audio broadcast formats, including podcasts;
- personal digital audio devices;
- HD Radio®, which provides multi-channel, multi-format digital radio services in the same bandwidth currently occupied by traditional AM and FM radio services; and
- low-power FM radio, which could result in additional FM radio broadcast outlets, including additional low-power FM radio signals authorized in December 2010 under the Local Community Radio Act.

New media has resulted in fragmentation in the advertising market, but we cannot predict the impact that additional competition arising from new technologies may have on the radio broadcasting industry or on our financial condition and results of operations.

A number of automakers are introducing more advanced, interactive dashboard technology including the introduction of technologies like Apple CarPlay and Google Android Auto that enable vehicle entertainment systems to more easily interface with a consumer's smartphone and include alternative audio entertainment options.

Programmatic buying, which enables an advertiser to purchase advertising inventory through an exchange or other service and bypass the traditional personal sales relationship, has become widely adopted in the purchase of digital advertising and is an emerging trend in the radio industry. We cannot predict the impact programmatic buying may have on the radio industry or our financial condition and results of operations.

Additionally, technological advancements in the operation of radio stations and related businesses have increased the number of patent and other intellectual property infringement claims brought against broadcasters, including Emmis. While Emmis has not historically been subject to material patent and other intellectual property claims and takes certain steps to limit the likelihood of, and exposure to, such claims, no assurance can be given that material claims will not be asserted in the future.

Our business depends heavily on maintaining our licenses with the FCC. We could be prevented from operating a radio station if we fail to maintain its license.

The radio broadcasting industry is subject to extensive and changing regulation. The Communications Act and FCC rules and policies require FCC approval for transfers of control and assignments of FCC licenses. The filing of petitions or complaints against FCC licensees could result in the FCC delaying the grant of, or refusing to grant, its consent to the assignment of licenses to or from an FCC licensee or the transfer of control of an FCC licensee. In certain circumstances, the Communications Act and FCC rules and policies will operate to impose limitations on alien ownership and voting of our common stock. There can be no assurance that there will be no changes in the current regulatory scheme, the imposition of additional regulations or the creation of new regulatory agencies, which changes could restrict or curtail our ability to acquire, operate and dispose of stations or, in general, to compete profitably with other operators of radio and other media properties.

Each of our radio stations operates pursuant to one or more licenses issued by the FCC. Under FCC rules, radio licenses are granted for a term of eight years. Our licenses expire at various times through June 2022. Although we will apply to renew these licenses, third parties may challenge our renewal applications. While we are not aware of facts or circumstances that would prevent us from having our current licenses renewed, there can be no assurance that the licenses will be renewed or that renewals will not include conditions or qualifications that could adversely affect our business and operations. Failure to obtain the renewal of any of our broadcast licenses may have a material adverse effect on our business and operations. In addition, if we or any of our officers, directors or significant stockholders materially violates the FCC's rules and regulations or the Communications Act, is convicted of a felony or is found to have engaged in unlawful anticompetitive conduct or fraud upon another government agency, the FCC may, in response to a petition from a third party or on its own initiative, in its discretion, commence a proceeding to impose sanctions upon us which could involve the imposition of monetary fines, the revocation of our broadcast licenses or other sanctions. If the FCC were to issue an order denying a license renewal application or revoking a license, we would be required to cease operating the applicable radio station only after we had exhausted all rights to administrative and judicial review without success.

We disseminate large amounts of content to the public. An ill-conceived or mistimed on-air statement or social media post could have a material adverse effect on our business.

The FCC's rules prohibit the broadcast of obscene material at any time and prohibit indecent material between the hours of 6 a.m. and 10 p.m. Broadcasters risk violating the prohibition on the broadcast of indecent material because of the FCC's broad definition of such material, coupled with the spontaneity of live programming.

Congress has dramatically increased the penalties for broadcasting obscene, indecent or profane programming and broadcasters can potentially face license revocation, renewal or qualification proceedings in the event that they broadcast indecent material. In addition, the FCC's heightened focus on indecency, against the broadcast industry generally, may encourage third parties to oppose our license renewal applications or applications for consent to acquire broadcast stations. As a result of these developments, we have implemented certain measures that are designed to reduce the risk of broadcasting indecent material in violation of the FCC's rules. These and other future modifications to our programming in an effort to reduce the risk of indecency violations could have an adverse effect on our competitive position.

Even statements or social media posts that do not violate the FCC's indecency rules could offend our audiences and advertisers or infringe the rights of third parties, resulting in a decline in ratings, a loss in revenues, a challenge to our broadcast licenses, or extended

litigation. While we maintain insurance covering some of these risks, others are effectively uninsurable and could have a material adverse effect on our results from operations and financial condition.

Any changes in current FCC ownership regulations may negatively impact our ability to compete or otherwise harm our business operations.

The FCC is required to review all of its broadcast ownership rules every four years and to repeal or modify any of its rules that are no longer “necessary in the public interest.” We cannot predict the impact of these reviews on our business or their effect on our ability to acquire broadcast stations in the future or to continue to own and freely transfer stations that we have already acquired.

In 2003, we acquired a controlling interest in five FM stations and one AM station in the Austin, Texas market. Under ownership regulations released after the date of our acquisition, it appears that we would be permitted to own or control only four FM stations in the Austin market (ownership of one AM station would continue to be allowed). The new rules do not require divestiture of existing non-conforming station combinations, but do provide that such clusters may be transferred only to defined small business entities or to buyers that commit to selling any excess stations to such entities within one year.

Consequently, if we wish to sell our interest in the Austin stations, we will need to obtain a waiver from the current ownership regulations, or we will need to either sell to an entity that meets those FCC requirements or exclude at least one FM station from the transaction, and a station divestiture would require the consent of our minority partner.

Changes in current Federal regulations could adversely affect our business operations.

Congress and the FCC have under consideration, and may in the future consider and adopt, new laws, regulations and policies that could, directly or indirectly, affect the profitability of our broadcast stations. In particular, Congress is considering a revocation of radio’s exemption from paying royalties to performing artists for use of their recordings (radio already pays a royalty to songwriters). A requirement to pay additional royalties could have an adverse effect on our business operations and financial performance.

Our business strategy and our ability to operate profitably depend on the continued services of our key employees, the loss of whom could have a material adverse effect on our business.

Our ability to maintain our competitive position depends to a significant extent on the efforts and abilities of our senior management team and certain key employees. Although our executive officers are typically under employment agreements, their managerial, technical and other services would be difficult to replace if we lose the services of one or more of them or other key personnel. Our business could be seriously harmed if one of them decides to join a competitor or otherwise competes directly or indirectly against us.

Our radio stations employ or independently contract with several on-air personalities and hosts of syndicated radio programs with large and loyal audiences in their respective broadcast areas. These on-air personalities are sometimes significantly responsible for the ranking of a station and, thus, the ability of the station to sell advertising. Such on-air personalities or other key individuals may not remain with our radio stations and we may not retain their audiences, which could affect our competitive position.

Impairment losses related to our intangible assets have reduced our earnings.

We have reported significant net losses in our consolidated statement of operations in the past as a result of recording noncash impairment charges, mostly related to FCC licenses and goodwill. During the years ended February 28, 2017, 2018 and 2019, we incurred impairment losses related to our intangible assets of \$9.8 million, \$0.3 million, and \$0.3 million, respectively. As of February 28, 2019, our FCC licenses and goodwill comprise 74% of our total assets. If events occur or circumstances change, or even if radio valuations trend downward, the fair value of our FCC licenses and goodwill might fall below the amount reflected on our balance sheet, and we may be required to recognize impairment charges, which may be material, in future periods.

We may fail to realize any benefits and incur unanticipated losses related to any acquisition.

The success of our acquisitions will depend, in part, on our ability to successfully integrate the acquired business. It is possible that the integration process could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers and employees or to achieve the anticipated benefits of the acquisition. Successful integration may also be hampered by any differences between the operations and corporate culture of the two organizations. If we experience difficulties with the integration process, the anticipated benefits of the acquisition may not be realized fully, or at all, or may take longer to realize than expected. Finally, any cost savings that are realized may be offset by losses in revenues from the acquired business.

We may fail to consummate dispositions or complete them in a timely manner.

We regularly review our portfolio of assets and periodically dispose of assets when we believe it is appropriate to do so. We are exploring strategic alternatives with respect to WLIB-AM in New York, as well as land in northwest Indianapolis that is currently being used as a tower site, and may explore strategic alternatives with respect to other assets we currently own. We cannot ensure that an announced transaction will be consummated for any asset we may contemplate divesting.

Our operating results have been and may again be adversely affected by acts of war, terrorism and natural catastrophes.

Acts of war and terrorism against the United States, and the country’s response to such acts, may negatively affect the U.S. advertising market, which could cause our advertising revenues to decline due to advertising cancellations, delays or defaults in payment for advertising

time, and other factors. In addition, these events may have other negative effects on our business, the nature and duration of which we cannot predict.

For example, after the September 11, 2001 terrorist attacks, we decided that the public interest would be best served by the presentation of continuous commercial-free coverage of the unfolding events on our stations. This temporary policy had a material adverse effect on our advertising revenues and operating results for the month of September 2001. Future events like those of September 11, 2001 may cause us to adopt similar policies, which could have a material adverse effect on our advertising revenues and operating results.

Additionally, the attacks on the World Trade Center on September 11, 2001 resulted in the destruction of the transmitter facilities that were located there. Although we had no transmitter facilities located at the World Trade Center, broadcasters that had facilities located in the destroyed buildings experienced temporary disruptions in their ability to broadcast. Since we tend to locate transmission facilities for stations serving urban areas on tall buildings or other significant structures, such as the Empire State Building in New York, further terrorist attacks or other disasters could cause similar disruptions in our broadcasts in the areas affected. If these disruptions occur, we may not be able to locate adequate replacement facilities in a cost-effective or timely manner or at all. Failure to remedy disruptions caused by terrorist attacks or other disasters and any resulting degradation in signal coverage could have a material adverse effect on our business and results of operations.

Similarly, hurricanes, floods, tornadoes, earthquakes, wild fires and other natural disasters can have a material adverse effect on our operations in any given market. While we generally carry insurance covering such catastrophes, we cannot be sure that the proceeds from such insurance will be sufficient to offset the costs of rebuilding or repairing our property or the lost income.

We have significant obligations relating to our current operating leases.

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

As of February 28, 2019, we had operating lease commitments of approximately \$38.1 million. These leases are classified as operating leases and disclosed in Note 11 to our accompanying consolidated financial statements. Upon adoption of ASU 2016-02, the Company recognized all operating leases as assets (the right to use the leased property) and liabilities (the present value of future lease payments). The assets and liabilities to be recognized upon adoption of ASU 2016-02 are estimated to be approximately \$27 million to \$31 million.

Our business is dependent upon the proper functioning of our internal business processes and information systems and modification or interruption of such systems may disrupt our business, processes and internal controls.

The proper functioning of our internal business processes and information systems is critical to the efficient operation and management of our business. If these information technology systems fail or are interrupted, our operations may be adversely affected and operating results could be harmed. Our business processes and information systems need to be sufficiently scalable to adapt to the size of our business and may require modifications or upgrades that expose us to a number of operational risks. Our information technology systems, and those of third party providers, may also be vulnerable to damage or disruption caused by circumstances beyond our control. These include catastrophic events, power anomalies or outages, natural disasters, computer system or network failures, viruses or malware, physical or electronic intrusions, unauthorized access and cyber-attacks. Any material disruption, malfunction or similar challenges with our business processes or information systems, or disruptions or challenges relating to the transition to new processes, systems or providers, could have a material adverse effect on our financial position, results of operations and cash flows.

Because of our holding company structure, we depend on our subsidiaries for cash flow, and our access to this cash flow is restricted.

We operate as a holding company. All of our radio stations and other assets are currently owned and operated by our subsidiaries. Emmis Operating Company (“EOC”), our wholly-owned subsidiary, is the borrower under our secured indebtedness. All of our station and other operating subsidiaries and FCC license subsidiaries are subsidiaries of EOC. Further, we guarantee EOC’s obligations under our secured indebtedness and a significant portion of EOC’s assets are pledged as collateral under our secured indebtedness. As a holding company, our only source of cash to pay our obligations, including corporate overhead expenses, is cash distributed from our subsidiaries. We currently expect that the majority of the net earnings and cash flow of our subsidiaries will be retained and used by them in their operations, including servicing their debt obligations. Even if our subsidiaries elect to make distributions to us, we cannot be assured that applicable state law and contractual restrictions, including covenants contained in our secured indebtedness, would permit such dividends or distributions.

Risks Related to our Indebtedness:

Our substantial indebtedness could adversely affect our financial health.

We have a significant amount of indebtedness. At May 1, 2019, our total indebtedness was \$82.5 million, consisting of \$22.9 million under our mortgage debt, \$45.6 million of 98.7FM nonrecourse debt, \$10.1 million of other nonrecourse debt and \$3.9 million of term loan debt. The Company expects that proceeds from the LMA in New York with a subsidiary of Disney will be sufficient to pay all debt service related to the 98.7FM nonrecourse debt. Our substantial indebtedness could have important consequences to investors. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- increase our vulnerability to generally adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

- result in higher interest expense in the event of increases in interest rates because some of our debt is at variable rates of interest;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to some of our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our credit agreements, our ability to borrow additional funds or make acquisitions.

If we cannot continue to comply with the financial covenants in our debt instruments, or obtain waivers or other relief from our lenders, we may default, which could result in loss of our sources of liquidity and acceleration of our indebtedness.

We have a substantial amount of indebtedness, and the instruments governing such indebtedness contain restrictive financial covenants. Our ability to comply with the covenants in our debt instruments will depend upon our future performance and various other factors, such as business, competitive, technological, legislative and regulatory factors, some of which are beyond our control. We may not be able to maintain compliance with all of these covenants. In that event, we would need to seek an amendment to our debt instruments, or would need to refinance our debt instruments. There can be no assurance that we can obtain future amendments or waivers of our debt instruments, or refinance our debt instruments and, even if so, it is likely that such relief would only last for a specified period, potentially necessitating additional amendments, waivers or refinancings in the future. In the event that we do not maintain compliance with the covenants under our debt instruments, the lenders could declare an event of default, subject to applicable notice and cure provisions, resulting in a material adverse impact on our financial position. Upon the occurrence of an event of default under our debt instruments, the lenders could elect to declare all amounts outstanding under our credit agreements to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure that indebtedness. If the lenders accelerate the repayment of borrowings, we may be forced to liquidate certain assets to repay all or part of our debt instruments, and we cannot be assured that sufficient assets will remain for us to continue our business operations after we have paid all of the borrowings under our debt instruments. Our ability to liquidate assets is affected by the regulatory restrictions associated with radio stations, including FCC licensing, which may make the market for these assets less liquid and increase the chances that these assets will be liquidated at a significant loss.

Our 98.7FM debt is not subject to these risks to the same degree as the debt under our other long-term debt agreements, as certain rights and payments under the 98.7FM LMA have been assigned to the holder of the 98.7FM debt, the 98.7FM debt is generally nonrecourse to the rest of Emmis, and the LMA payments have been guaranteed by Disney Enterprises, Inc.

The terms of our indebtedness and the indebtedness of our direct and indirect subsidiaries may restrict our current and future operations, particularly our ability to respond to changes in market conditions or to take some actions.

Our debt instruments impose significant operating and financial restrictions on us. These restrictions significantly limit or prohibit, among other things, our ability and the ability of our subsidiaries to incur additional indebtedness, issue preferred stock, incur liens, pay dividends, enter into asset purchase or sale transactions, merge or consolidate with another company, dispose of our assets or make certain other payments or investments.

These restrictions currently limit our ability to grow our business through acquisitions and could limit our ability to respond to market conditions or meet extraordinary capital needs. They also could restrict our corporate activities in other ways. These restrictions could adversely affect our ability to finance our future operations or capital needs.

To service our indebtedness and other obligations, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our long-term debt agreements require us to pay periodic interest and principal payments. Our ability to make payments on our indebtedness and to fund capital expenditures will depend on our ability to generate cash in the future. This ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our businesses might not generate sufficient cash flow from operations. We might not be able to complete future offerings, and future borrowings might not be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

Risks Related to our Common Stock:

One shareholder controls a majority of the voting power of our common stock, and his interest may conflict with those of other shareholders.

As of May 3, 2019, our Chairman of the Board of Directors and Chief Executive Officer, Jeffrey H. Smulyan, beneficially owned shares representing approximately 52.0% of the outstanding combined voting power of all classes of our common stock, as calculated pursuant to Rule 13d-3 of the Exchange Act. He therefore is in a position to exercise substantial influence over the outcome of most matters submitted to a vote of our shareholders, including the election of a majority of our directors.

The difficulties associated with any attempt to gain control of our company could adversely affect the price of our Class A common stock.

Jeffrey H. Smulyan has substantial influence over the decision as to whether a change in control will occur for our company. There are also provisions contained in our articles of incorporation, by-laws and Indiana law that could make it more difficult for a third party to acquire control of Emmis. In addition, FCC approval for transfers of control of FCC licenses and assignments of FCC licenses are required. These restrictions and limitations could adversely affect the trading price of our Class A common stock.

Our stock price and trading volume could be volatile.

Our Class A common stock is currently listed on the National Association of Securities Dealers Automated Quotation (“Nasdaq”) Global Select Market under the symbol “EMMS.” The market price of our Class A common stock and our trading volume have been subject to fluctuations since our initial public offering in 1994. Accordingly, the market price of our Class A common stock could experience volatility, regardless of our operating performance.

Our Class A common stock may cease to be listed on the Nasdaq Global Select Market.

Our common stock is currently listed on the Nasdaq Global Select Market under the symbol “EMMS.” We may not be able to meet the continued listing requirements of the Nasdaq Global Select Market, which require, among other things, a minimum closing price of our common stock and a minimum market capitalization. In the past, we have received written deficiency notices from The Nasdaq Stock Market advising us that the closing bid price of our Class A common stock did not meet the continued listing requirements pursuant to NASDAQ Listing Rule 5450(a)(1). In each of these instances, we were able to satisfy the requirements for continued listing. If we are unable to satisfy the requirements of the Nasdaq Global Select Market for continued listing, our common stock would be subject to delisting from that market, and we might or might not be eligible to list our shares on another Nasdaq market.

A delisting of our Class A common stock from the Nasdaq Global Select Market could negatively impact us by, among other things, reducing the liquidity and market price of our common stock. There can be no assurance that we will be able to comply with the Minimum Bid Price Rule, or any other requirement in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The types of properties required to support each of our radio stations include offices, studios and transmitter/antenna sites. We typically lease our studio and office space, although we do own some of our facilities. Most of our studio and office space leases contain lease terms with expiration dates of five to fifteen years. A station’s studios are generally housed with its offices in downtown or business districts. We generally consider our facilities to be suitable and of adequate size for our current and intended purposes. We own several of our main transmitter/antenna sites and lease the remainder of our transmitter/antenna sites with lease terms that generally range from five to twenty years. The transmitter/antenna site for each station is generally located so as to provide maximum market coverage, consistent with the station’s FCC license. In general, we do not anticipate difficulties in renewing facility or transmitter/antenna site leases or in leasing additional space or sites if required. We have approximately \$38.1 million in aggregate minimum rental commitments under real estate leases. Many of these leases contain escalation clauses such as defined contractual increases or cost-of-living adjustments.

Our principal executive offices are located at 40 Monument Circle, Suite 700, Indianapolis, Indiana 46204, in approximately 115,000 square feet of owned office space which is shared by our Indianapolis radio stations and our *Indianapolis Monthly* publication. This property is subject to a mortgage.

We own substantially all of our other equipment, consisting principally of transmitting antennae, transmitters, studio equipment and general office equipment. The towers, antennae and other transmission equipment used by our stations are generally in good condition, although opportunities to upgrade facilities are periodically reviewed.

ITEM 3. LEGAL PROCEEDINGS.

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

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. The United States Court of Appeals for the Seventh Circuit is scheduled to hear oral arguments by both parties on May 30, 2019. Accordingly, Emmis cannot estimate the amount or timing of a recovery, if any.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET INFORMATION FOR OUR COMMON STOCK

Emmis' Class A common stock is traded in the over-the-counter market and is quoted on the Nasdaq Global Select Market under the symbol EMMS. There is no established public trading market for Emmis' Class B common stock or Class C common stock. On July 8, 2016, we effected a one-for-four reverse stock split for all classes of our common stock.

HOLDERS

At May 3, 2019, there were 2,403 beneficial holders of the Class A common stock, and there was one beneficial holder of the Class B common stock.

DIVIDENDS

Emmis currently intends to retain future earnings for use in its business and has no plans to pay any dividends on shares of its common stock in the foreseeable future. Emmis' revolving credit agreement sets forth certain restrictions on our ability to pay dividends. See Note 5 to the accompanying consolidated financial statements for more discussion of the revolving credit agreement.

SHARE REPURCHASES

During the three-month period ended February 28, 2019, 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 February 28, 2019:

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				
December 1, 2018 - December 31, 2018	—	\$ —	—	\$ —
January 1, 2019 - January 31, 2019	14,683	\$ 3.95	—	\$ —
February 1, 2019 - February 28, 2019	37,981	\$ 3.84	—	\$ —
	<u>52,664</u>		<u>—</u>	

ITEM 6. SELECTED FINANCIAL DATA.

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

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

The following discussion pertains to Emmis Communications Corporation (“ECC”) and its subsidiaries (collectively, “Emmis” or the “Company”).

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, 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 past three years. 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. During the three year period ended February 28, 2019, we sold all of our city and regional magazines with the exception of *Indianapolis Monthly*. We also sold our radio stations in Terre Haute, Los Angeles and St. Louis. These sales impact the comparability of net revenues in fiscal 2017, 2018 and 2019.

	Years Ended February 28,					
	2017	% of Total	2018	% of Total	2019	% of Total
Net revenues:						
Local	\$ 121,841	56.8%	\$ 81,949	55.2%	\$ 62,441	54.7%
National	21,706	10.1%	16,261	11.0%	10,472	9.2%
Political	2,163	1.0%	457	0.3%	1,684	1.5%
Publication Sales	4,193	2.0%	412	0.3%	384	0.3%
Non Traditional	22,936	10.7%	17,280	11.6%	12,897	11.3%
Interactive	14,737	6.9%	10,058	6.8%	5,500	4.8%
LMA Fees	10,331	4.8%	10,752	7.2%	11,050	9.7%
Other	16,661	7.7%	11,318	7.6%	9,703	8.5%
Total net revenues	\$ 214,568		\$ 148,487		\$ 114,131	

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.

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.

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

The Company has also aggressively worked to harness the power of broadband and mobile media distribution in the development of emerging business opportunities by 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 results of our radio operations are heavily dependent on the results of our stations in the New York market, which account for approximately 50% of our radio net revenues. Some of our competitors that operate larger station clusters in the New York market 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 2.0% for the twelve months ended February 28, 2019, as compared to the same period of the prior year. During this period, revenues for our New York cluster were down 3.4%. Our underperformance in New York was largely attributable to lower ticket sales revenue for our largest concert, Summer Jam. Poor weather on the day of the concert negatively impacted ticket sales.

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' long-term debt agreements substantially limit 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, over the past three fiscal years we have sold radio stations in Terre Haute, Los Angeles and St. Louis. 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 derive 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.

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 February 28, 2019, we have recorded approximately \$174.9 million in goodwill and FCC licenses, which represents approximately 74% 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 a Local Marketing Agreement by another broadcaster.

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

Valuation of Indefinite-lived Broadcasting Licenses

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

Below are some of the key assumptions used in our annual impairment assessments. In recent years, we have reduced long-term growth rates in the markets in which we operate based on recent industry trends and our expectations for the markets going forward. The methodology used to value our FCC licenses has not changed in the three-year period ended February 28, 2019.

	December 1, 2016	December 1, 2017	December 1, 2018
Discount Rate	12.2% - 12.5%	12.1% - 12.4%	11.9% - 12.3%
Long-term Revenue Growth Rate	1.0% - 2.0%	1.0% - 1.8%	0.3% - 1.0%
Mature Market Share	3.1% - 30.4%	12.7% - 31.1%	12.9% - 30.2%
Operating Profit Margin	25.1% - 39.1%	27.0% - 39.1%	26.0% - 38.0%

The Company recorded impairment charges related to FCC licenses in two of the past three years. Impairment charges recognized as part of our December 1, 2016 and 2018 annual testing were \$6.9 million and \$0.3 million, respectively. These impairments were mostly related to declining market revenues combined with lowered expectations for future long-term revenue growth rates as noted in the table above.

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 uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units (radio stations grouped by market, excluding any stations that are being operated pursuant to an LMA). 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 well as recent market transactions as a benchmark for the multiple it applies to its radio reporting units. For the annual assessment performed as of December 1, 2018, the Company applied a market multiple of 8.0 times the reporting unit's operating performance. 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 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.

The Company adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment as of March 1, 2017. Prior to March 1, 2017, the Company performed a two-step impairment test for goodwill. Goodwill impairment recorded during the year ended February 28, 2017 was recorded using the two-step methodology. Goodwill impairments recorded from March 1, 2017 forward will be recorded using the simplified method as described above.

The Company used an income approach to determine the enterprise value of Digonex. Digonex is a dynamic pricing business that does not have well-established industry trading multiples, analyst estimates of valuations, or recently completed transactions that would indicate fair values of these businesses. As such, the Company used a discounted cash flow method to determine the fair value of Digonex.

During the quarter ended August 31, 2016, the Company lowered its growth expectations for Digonex for the next several years due to slow client adoption of dynamic pricing services. While the Company continues to believe in the long-term growth prospects of Digonex, the lengthy sales cycle has caused Digonex to perform below expectations to date. The combination of lower-than-expected current period results, coupled with downward revisions to future revenue projections, resulted in an impairment indicator that caused the Company to assess goodwill and related intangibles on an interim basis during the quarter ended August 31, 2016. The Company's discounted cash flow analysis for Digonex indicated a nominal enterprise value. Therefore, in connection with the interim impairment test, Emmis determined that Digonex's goodwill was fully impaired and recorded an impairment loss of \$2.1 million. Subsequent to our impairment of Digonex goodwill and the sale of *Texas Monthly* (see note 7 to our consolidated financial statements for more discussion), the Company's goodwill relates entirely to its Radio segment.

During our December 2017 annual goodwill impairment test, the Company wrote off \$0.3 million of goodwill associated with our Indianapolis radio cluster. Weak ratings and declining market revenues significantly impacted our operating performance in Indianapolis. This resulted in the carrying value of our Indianapolis radio cluster exceeding its estimated fair value by more than the amount of goodwill we had recorded for the cluster on the assessment date. As such, the Company fully impaired the goodwill of this cluster.

Sensitivity Analysis

Based on the results of our December 1, 2018 annual impairment assessment, the fair value of our broadcasting licenses was approximately \$203.6 million, which was in excess of the \$170.5 million carrying value by \$33.1 million, or 19.4%. Should our estimates or assumptions worsen, or should negative events or circumstances occur in the units that have limited fair value cushion, additional license impairments may be needed.

Unit of Accounting	Radio Broadcasting Licenses		
	As of December 1, 2018		
	Carrying Value	Fair Value	Percentage by which fair value exceeds carrying value
New York Cluster	71,614	102,976	43.8%
98.7FM (New York)	46,390	47,112	1.6%
Austin Cluster	34,720	35,675	2.8%
Indianapolis Cluster	17,823	17,823	0.0%
Total	170,547	203,586	19.4%

If we were to assume a 100 basis point change in any of our three key assumptions (a reduction in the long-term revenue growth rate, a reduction in local commercial share or an increase in the discount rate) used to determine the fair value of our broadcasting licenses on December 1, 2018, the resulting impairment charge would have been \$21.3 million, \$13.4 million and \$9.9 million, respectively. Also, if we were to assume a market multiple decrease of one or a 10% decrease in the two-year average station operating income, two of the key assumptions used to determine the fair value of our goodwill on December 1, 2018, the resulting estimates of enterprise valuations would still

exceed the carrying values of the enterprises. As such, no additional goodwill impairment would be recognized if either of these two key assumptions were lowered.

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 recorded for financial reporting purposes as compared to 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 accrued for employee healthcare claims as of February 28, 2018 and 2019, respectively. The Company also maintains large deductible programs (ranging from \$100 thousand to \$250 thousand per occurrence) for workers' compensation, employment liability, automotive liability and media liability claims.

DISPOSITIONS

The transactions described below impact the comparability of operating results for the three years ended February 28, 2019.

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. Emmis decided to sell its stations in St. Louis to further reduce overall indebtedness. 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 were not immediately due, so we repaid amounts outstanding under our revolver and we held excess cash on our balance sheet to enhance our liquidity position until we remit the taxes when due. Emmis recorded a \$32.1 million gain on the sale of its St. Louis stations. Our St. Louis radio stations had historically been included in our Radio segment. These disposals did not qualify for reporting as a discontinued operation as they did not represent a strategic shift for the Company as described in Accounting Standards Codification 205-20-45-1C.

Sale of KPWR-FM

On August 1, 2017, Emmis closed on its sale of substantially all of the assets of KPWR-FM for gross proceeds of approximately \$80.1 million to affiliates of the Meruelo Group. Under the terms of the Fourth Amendment to Emmis' senior credit facility, Emmis was required to enter into definitive agreements to sell assets that generated at least \$80 million of proceeds by January 18, 2018 and to close on such transactions following receipt of required regulatory approvals. The sale of KPWR-FM satisfied these requirements. Emmis found it more advantageous to sell its standalone radio station in Los Angeles than to sell other assets to meet this requirement. After payment of transaction costs and withholding for estimated tax obligations, net proceeds totaled approximately \$73.6 million and were used to repay term loan indebtedness under Emmis' senior credit facility. Emmis recorded a \$76.7 million gain on the sale of KPWR-FM. KPWR-FM 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.

Sale of Los Angeles Magazine, Atlanta Magazine, Cincinnati Magazine and Orange Coast Magazine

On February 28, 2017, Emmis closed on its sale of substantially all of the assets of *Los Angeles Magazine*, *Atlanta Magazine*, *Cincinnati Magazine* and *Orange Coast Magazine* (the “Hour Magazines”) for gross proceeds of \$6.5 million to Hour Media Group, LLC. The Company previously announced that it was exploring strategic alternatives for its publishing division, excluding *Indianapolis Monthly*. Emmis decided to sell most of its publishing assets to reduce debt outstanding. Emmis received net proceeds of \$2.9 million, consisting of the stated purchase price of \$6.5 million, less \$0.7 million held in escrow and disposition costs totaling \$2.9 million. The \$2.9 million of disposition costs primarily relate to \$1.6 million of severance costs and transaction advisory fees of \$1.0 million. The funds held in escrow secure Emmis’ post-closing indemnification obligations in the purchase agreement and were scheduled to be released six months after the closing of the transaction. The release of these funds from escrow is currently being litigated. See Note 11 to the accompanying consolidated financial statements. After settling retention bonuses to affected employees, net proceeds were used to repay term loan indebtedness under Emmis’ senior credit facility. Emmis recorded a \$2.7 million gain on the sale of the Hour Magazines. These magazines had historically been included in our Publishing 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.

Sale of Terre Haute, Indiana radio stations

On January 30, 2017, Emmis closed on its sale of substantially all of the assets of its radio stations in Terre Haute, Indiana, in two contemporaneous transactions. In one transaction, Emmis sold the assets of WTHI-FM and the intellectual property of WWVR-FM to Midwest Communications, Inc. In the other transaction, Emmis sold the assets of WFNF-AM, WFNB-FM, WWVR-FM (other than the intellectual property for that station) and an FM translator to DLC Media, Inc. The Company previously announced that it was exploring strategic alternatives for these radio stations. Emmis believed that operating stations in Terre Haute, Indiana was not a core part of its radio strategy and its strong market position in the Terre Haute market would be attractive to potential buyers. At closing, Emmis received gross proceeds of approximately \$5.2 million for both transactions. After payment of brokerage and other transaction costs, net proceeds totaled \$4.8 million and were used to repay term loan indebtedness under Emmis’ senior credit facility. Emmis recorded a \$3.5 million gain on the sale of its Terre Haute radio stations. The Terre Haute 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.

Sale of Texas Monthly

On November 1, 2016, Emmis closed on its sale of *Texas Monthly* for gross proceeds of \$25.0 million in cash to a subsidiary of Genesis Park, LP. The Company previously announced that it was exploring strategic alternatives for its publishing division, excluding *Indianapolis Monthly*. Emmis believed that its publishing portfolio had significant brand value and planned to use proceeds from the sale of its publishing properties to repay debt. Emmis received net proceeds of \$23.4 million, consisting of the stated purchase price of \$25.0 million, net of estimated purchase price adjustments totaling \$0.7 million and disposition costs totaling \$0.9 million. The \$0.9 million of disposition costs primarily related to severance costs. Proceeds were used to repay term and revolving loan indebtedness under Emmis’ senior credit facility. Emmis recorded a \$17.4 million gain on the sale of *Texas Monthly*. *Texas Monthly* had historically been included in our Publishing 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.

RESULTS OF OPERATIONS

YEAR ENDED FEBRUARY 28, 2018 COMPARED TO YEAR ENDED FEBRUARY 28, 2019

Net revenues:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Net revenues:				
Radio	\$ 142,852	\$ 108,018	\$ (34,834)	(24.4)%
Publishing	4,521	4,678	157	3.5%
Emerging Technologies	1,114	1,435	321	28.8%
Total net revenues	\$ 148,487	\$ 114,131	\$ (34,356)	(23.1)%

Radio net revenues decreased during the year ended February 28, 2019 mostly due to the sale of our St. Louis radio stations on April 30, 2018. Excluding the effects of radio station sales, our radio net revenues would have been down 3.2% for the year ended February 28, 2019. Our net revenues were negatively impacted by lower ticket sales revenue for our largest concert, Summer Jam. Poor weather on the day of the concert negatively impacted ticket sales.

We typically monitor the performance of our stations against the aggregate performance of the markets in which we operate based on reports for the periods prepared by Miller Kaplan. Miller Kaplan reports are generally prepared on a gross revenues basis and exclude revenues from barter arrangements. A summary of market revenue performance and Emmis' revenue performance in those markets for the year ended February 28, 2019 is presented below:

Market	For the year ended February 28, 2019	
	Overall Market Revenue Performance	Emmis Revenue Performance ¹
New York	(2.0%)	(3.4%)
Indianapolis	(2.7%)	(1.3%)
Austin	3.9%	(1.8%)
All Markets	(1.3%)	(2.5%)

¹ Emmis revenue performance in New York excludes the results of WEPN-FM, which is being operated pursuant to an LMA.

Publishing net revenues were up for the year ended February 28, 2019 mostly due to a \$0.2 million increase in advertising sales over the prior year.

Emerging technologies net revenues, which primarily related to pricing services provided by Digonex and licensing fees of our TagStation software, increased during the year ended February 28, 2019 principally due to client growth at Digonex. During the quarter ended November 30, 2018, we decided to dramatically reduce the scale of our TagStation business. The Company does not expect to generate revenues from this business going forward.

Station operating expenses excluding depreciation and amortization expense:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
(As reported, amounts in thousands)				
Station operating expenses excluding depreciation and amortization expense:				
Radio	\$ 102,413	\$ 76,128	\$ (26,285)	(25.7)%
Publishing	5,035	4,822	(213)	(4.2)%
Emerging Technologies	12,310	10,083	\$ (2,227)	(18.1)%
Total station operating expenses excluding depreciation and amortization expense	\$ 119,758	\$ 91,033	\$ (28,725)	(24.0)%

The decrease in station operating expenses excluding depreciation and amortization expense for our radio division for the year ended February 28, 2019 is mostly due to the sale of our St. Louis radio stations on April 30, 2018. Excluding the effects of radio station sales, our radio station operating expenses excluding depreciation and amortization expense would have been down 0.2% for the year ended February 28, 2019, as compared to the same period of the prior year.

The decrease in station operating expenses excluding depreciation and amortization expense for publishing for the year ended February 28, 2019 was mostly due a decrease in employee-related costs.

Station operating expenses excluding depreciation and amortization expense for emerging technologies decreased in the year ended February 28, 2019 mostly due to a dramatic reduction of scale of our TagStation business during the fourth quarter of fiscal 2019. Also contributing to the decline in operating expenses were nonrecurring charges in the prior year including (i) NextRadio funding \$0.6 million of its obligation to Sprint with the proceeds of a third party loan in March 2017, which was remitted to Sprint, and (ii) Emmis contributing \$0.3 million to NextRadio, which was remitted to Sprint in connection with the final payment to Sprint, both of which were expensed at the time of remittance to Sprint.

Corporate expenses excluding depreciation and amortization expense:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
(As reported, amounts in thousands)				
Corporate expenses excluding depreciation and amortization expense	\$ 10,712	\$ 10,313	\$ (399)	(3.7)%

Corporate expenses excluding depreciation and amortization expense decreased during the year ended February 28, 2019 mostly due to lower employee compensation and benefit costs.

Impairment loss on intangible assets:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Impairment loss on intangible assets:				
Radio	\$ 265	\$ 343	\$ 78	29.4%

In connection with the annual impairment review conducted on December 1, 2018, the Company concluded that the FCC Licenses associated with its Indianapolis radio operations were impaired and recorded an impairment loss of \$0.3 million.

In connection with the annual impairment review conducted on December 1, 2017, the Company concluded that goodwill associated with its Indianapolis radio operations was impaired and recorded an impairment loss of \$0.3 million to reduce the carrying value of this goodwill to zero.

We could record impairment charges in future periods if we determine the carrying value of our intangible assets exceeds their fair value. Our annual impairment test of our broadcasting licenses and goodwill is performed each year as of December 1. We may be required to retest prior to our next annual evaluation, which could result in additional impairment charges.

Depreciation and amortization:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Depreciation and amortization:				
Radio	\$ 2,792	\$ 2,338	\$ (454)	(16.3)%
Publishing	19	18	(1)	(5.3)%
Corporate & Emerging Technologies	817	857	40	4.9%
Total depreciation and amortization	\$ 3,628	\$ 3,213	\$ (415)	(11.4)%

The decrease in radio depreciation and amortization expense for the year ended February 28, 2019 mostly relates to the sale of our radio stations in St. Louis on April 30, 2018.

The increase in corporate & emerging technologies is due to depreciation of new equipment placed into service.

(Gain) loss on sale of radio and publishing assets, net of disposition costs:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
(Gain) loss on sale of radio and publishing assets, net of disposition costs:				
Radio	\$ (76,745)	\$ (32,148)	\$ (44,597)	(58.1)%
Publishing	141	331	190	134.8%
(Gain) loss on sale of radio and publishing assets, net of disposition costs	\$ (76,604)	\$ (31,817)	\$ (44,787)	(58.5)%

On April 30, 2018, the Company sold its four radio stations in St. Louis and recorded a \$32.1 million gain on sale of these stations. On August 1, 2017, the Company closed on its sale of 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 mostly relates to the legal fees and eventual settlement of a dispute with Hour Media, the buyer of *Los Angeles Magazine*, *Cincinnati Magazine*, *Atlanta Magazine* and *Orange Coast Magazine*.

Operating income (loss):

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Operating income (loss):				
Radio	\$ 114,209	\$ 61,300	\$ (52,909)	(46.3)%
Publishing	(687)	(493)	194	28.2%
Corporate & Emerging Technologies	(22,725)	(19,818)	2,907	12.8%
Total operating income (loss)	\$ 90,797	\$ 40,989	\$ (49,808)	(54.9)%

Radio operating income decreased due to the net effect of the sale of our St. Louis radio stations in the current year and KPWR-FM in the prior year.

Publishing operating loss decreased due to better revenue performance and lower employee costs.

Corporate and emerging technologies operating loss decreased mostly due to lower operating expenses as a result of the scale-down of our TagStation business during the fourth quarter of Fiscal 2019.

Interest expense:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Interest expense	\$ (15,143)	\$ (8,103)	\$ (7,040)	(46.5)%

The decrease in interest expense is attributable to lower debt balances as the Company used the proceeds from its St. Louis radio station sales to reduce debt outstanding.

Loss on debt extinguishment:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Loss on debt extinguishment	\$ (2,662)	\$ (779)	\$ (1,883)	(70.7)%

The Company repaid outstanding term loans under its credit facility with proceeds from asset sales during fiscal 2018 and fiscal 2019. The pro-rata portion of unamortized debt discount that was written-off in connection with these repayments was classified as a loss on debt extinguishment.

(Benefit) provision for income taxes:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
(Benefit) provision for income taxes	\$ (11,732)	\$ 6,167	\$ 17,899	N/M

Our effective income tax rate was (16%) and 19% for the years ended February 28, 2018 and 2019, respectively. During the year ended February 28, 2018, the taxable gain associated with the sale of KPWR-FM was mostly offset by the utilization of deferred tax assets, including substantially all Federal net operating loss carryforwards. The benefit recorded in fiscal 2018 principally relates to the Tax Cuts and Jobs Act (the "Act"), which was signed into law on December 22, 2017. Among its numerous changes to the Internal Revenue Code, the Act reduced U.S. corporate rates from 35% to 21%. The corresponding reduction of deferred tax liabilities based on this lower rate resulted in a one-time benefit of \$14.2 million in fiscal 2018. Our effective tax rate of 19% for the year ended February 28, 2019 differed from the statutory rate due to realization of alternative minimum tax credits that were previously fully reserved.

Consolidated net income:

	For the years ended February 28,		\$ Change	% Change
	2018	2019		
	(As reported, amounts in thousands)			
Consolidated net income	\$ 84,759	\$ 26,079	\$ (58,680)	(69.2)%

The decrease in consolidated net income is principally due to the difference in the gains on sale recorded in connection with our sale of KPWR-FM in the prior year and our St. Louis radio stations in the current year, coupled with the effect of the one-time tax benefit recorded in the prior year related to the Act.

YEAR ENDED FEBRUARY 28, 2017 COMPARED TO YEAR ENDED FEBRUARY 28, 2018

A discussion comparing the years ended February 28, 2017 and February 28, 2018 is contained in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2018, filed on May 10, 2018, as part of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations.

LIQUIDITY AND CAPITAL RESOURCES

APRIL 2019 REFINANCING

On April 12, 2019, Emmis and certain of its subsidiaries entered into three loan agreements, consisting of:

1. \$12 million revolving credit agreement by and among Wells Fargo Bank, National Association, as lender, the Company, Emmis Operating Company, a wholly owned subsidiary of the Company, and certain other subsidiaries as borrowers (the “Revolving Credit Agreement”)
2. \$23 million mortgage by and between Emmis Operating Company and Emmis Indiana Broadcasting, L.P., as borrowers, and Star Financial Bank, as lender (the “Mortgage”)
3. \$4 million term loan, by and between Emmis Operating Company, as borrower, and Barrett Investment Partners, LLC, as lender (the “Term Loan”)

The Revolving Credit Agreement expires April 12, 2024, provided the Term Loan is repaid, replaced, or extended by October 12, 2021. Amounts borrowed under the Revolving Credit Agreement bear interest at daily three-month LIBOR plus 2.50%. A commitment fee of 0.50% per annum is charged for unused amounts under the Revolving Credit Agreement. Pursuant to a Guaranty and Security Agreement, dated as of April 12, 2019, by and among Wells Fargo Bank, National Association, as lender, the Company, Emmis Operating Company, and certain other subsidiaries as borrowers (the “GSA”), the obligations under the Revolving Credit Agreement are secured by a perfected first priority security interest in certain of the Company’s accounts receivable and fixed assets, as well as security interests in certain other assets of the Company. Borrowing under the Revolving Credit Agreement depends upon continued compliance with certain operating covenants and financial covenants, including maintaining a fixed charge coverage ratio, as specifically defined in the Revolving Credit Agreement, of at least 1.10:1.00. No amounts may be borrowed under the Revolving Credit Agreement unless and until all (i) existing income tax obligations, currently estimated to be approximately \$7 million, are paid in full, or (ii) the borrowing is used to pay such income tax obligations. The operating and other restrictions with which the Company must comply include, among others, restrictions on additional indebtedness, incurrence of liens, engaging in businesses other than our primary business, paying certain dividends, redeeming or repurchasing capital stock, acquisitions and asset sales. No default or event of default has occurred or is continuing.

The Mortgage expires April 12, 2029, and is secured by a perfected first priority security interest in the Company’s headquarters building in Indianapolis, Indiana, and approximately 70 acres of land owned by the Company in Whitestown, Indiana, which currently is used as a tower site for one of the Company’s radio stations. The Mortgage bears interest at 5.48% per annum and requires monthly principal and interest payments using a 25 year amortization period, with a balloon payment due at expiration. The Mortgage requires continued compliance with certain operating covenants and financial covenants, including maintaining a fixed charge coverage ratio, as specifically defined in the Mortgage, of at least 1.10:1.00, and requires certain proceeds from asset sales to be used to repay the Mortgage indebtedness.

The Term Loan expires April 12, 2022, and is secured by a pledge of the Company’s controlling ownership interest in a partnership that owns and operates 6 radio stations in Austin, Texas. The Term Loan bears interest at 10% per annum the first year, with the rate increasing to 12% in the second year and to 14% in the third year. The Term Loan requires monthly principal and interest payments, and is prepayable at par at any time provided that interest of at least \$125,000 must be paid to the lender.

2014 CREDIT AGREEMENT

On June 10, 2014, Emmis entered into the 2014 Credit Agreement, by and among the Company, EOC, as borrower (the “Borrower”), certain other subsidiaries of the Company, as guarantors (the “Subsidiary Guarantors”) and the lenders party thereto. As discussed above, the Company repaid all amounts outstanding under the 2014 Credit Agreement on April 12, 2019. Capitalized terms in this section not defined elsewhere in this 10-K are defined in the 2014 Credit Agreement and related amendments.

As of February 28, 2019, the 2014 Credit Agreement consisted of the remaining balance of a term loan (\$69.5 million and \$25.0 million as of February 28, 2018 and 2019, respectively). The revolving credit facility matured on August 31, 2018. Outstanding revolver borrowings as of February 28, 2018 were \$9.0 million and were fully paid prior to the maturity date. 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 three years ended February 28, 2019.

Amounts outstanding under the 2014 Credit Agreement bore 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%. The Company paid an unused commitment fee of 75 basis points per annum on the average unused amount of the revolving credit facility prior to its maturity. Principal payments on the term loans after July 18, 2018 were accompanied by a fee to the lenders equal to 2% of the amount being repaid. Additionally, on each ninety day anniversary of July 18, 2018, such redemption fee increased by an additional 0.5% and the interest rate on amounts outstanding increased by 0.5%. The weighted average borrowing rate of amounts outstanding related to the 2014 Credit Agreement was 8.7% and 10.5% at February 28, 2018 and 2019, respectively.

Our 2014 Credit Agreement debt was carried net of an unamortized original issue discount of \$1.8 million and \$0.1 million as of February 28, 2018 and 2019, respectively. The original issue discount was amortized as additional interest expense over the life of the 2014 Credit Agreement.

The 2014 Credit Agreement required 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 required the Company to comply with certain financial and non-financial covenants. These covenants included a Total Leverage Ratio covenant of 4.00:1.00. The Company maintained compliance with all financial and non-financial covenants through the repayment of the term loan on April 12, 2019.

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

SOURCES OF LIQUIDITY

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

At February 28, 2019, we had cash and cash equivalents of \$5.4 million and net working capital of (\$27.4) 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 our St. Louis radio stations being classified as current assets held for sale as of February 28, 2018 and our \$25.0 million term loan, which was reclassified to current in the current year given its April 2019 maturity date.

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-K, management believes the Company can meet its liquidity needs through the end of fiscal year 2020 with cash and cash equivalents on hand and projected cash flows from operations. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2020.

Since we manage cash on a consolidated basis, any cash needs of a particular segment or operating entity are met by intercompany transactions. See Investing Activities below for a discussion of specific segment needs. A discussion of the Company's liquidity for the year ended February 28, 2017 is contained in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2018, filed on May 10, 2018, as part of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Sources of Liquidity.

Operating Activities

Cash flows used in operating activities were \$0.1 million for the year ended February 28, 2018 versus cash flows provided by operating activities of \$7.7 million for the year ended February 28, 2019. The increase in cash flows provided by operating activities was mostly attributable to a decrease in cash paid for interest. During the past two fiscal years, the Company sold its radio station in Los Angeles and its radio stations in St. Louis and used the majority of the net proceeds to repay outstanding debt.

Investing Activities

Cash flows provided by investing activities of \$59.7 million for the year ended February 28, 2019 consisted of \$60.2 million of proceeds from the sale of our St. Louis radio stations, partially offset by \$0.5 million of capital expenditures.

Cash flows provided by investing activities of \$78.4 million for the year ended February 28, 2018 consisted of \$80.2 million of proceeds from the sale of KPWR-FM in Los Angeles, partially offset by \$1.8 million of capital expenditures.

Financing Activities

Cash used in financing activities of \$65.6 million for the year ended February 28, 2019 primarily relates to net payments on our long-term debt of \$60.0 million, distributions to noncontrolling interests of \$5.3 million and the settlement of tax withholding obligations of \$0.6 million.

Cash used in financing activities of \$85.9 million for the year ended February 28, 2018 primarily relates to net payments on our long-term debt of \$79.1 million, distributions to noncontrolling interests of \$4.9 million, debt-related costs of \$1.6 million and the settlement of tax withholding obligations of \$0.4 million.

As of February 28, 2019, Emmis had \$25.0 million of borrowings under the 2014 Credit Agreement, all of which were current, and \$57.4 million of non-recourse debt (\$7.2 million current and \$50.2 million long-term). Borrowings under the 2014 Credit Agreement bore interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. The non-recourse debt bears interest ranging from 2.0% to 5.0% per annum. As of February 28, 2019, our weighted average borrowing rate under our 2014 Credit Agreement was approximately 10.5%.

Subsequent to the Company's refinancing on April 12, 2019, the Company's weighted average borrowing rate was 6.1%, excluding our various nonrecourse debt instruments.

Subsequent to the Company's refinancing on April 12, 2019, the debt service requirements of Emmis over the next twelve-month period are expected to be \$1.7 million related to our Mortgage, (\$0.4 million of principal repayments and \$1.3 million of interest payments), \$9.0 million related to our 98.7FM non-recourse debt (\$7.3 million of principal repayments and \$1.7 million of interest payments) and \$1.6 million related to our Term Loan (\$1.3 million of principal repayments and \$0.3 million of interest payments). Digonex non-recourse debt (\$6.2 million face amount, \$6.1 million carrying amount as of February 28, 2019) is due in December 2020. NextRadio non-recourse debt of \$4.0 million 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. Our Revolving Credit Agreement bears interest at variable rates based on amounts borrowed. As of May 1, 2019, the Company had not borrowed any amounts under the Revolving Credit Agreement.

As of May 3, 2019, we had \$8.1 million available for additional borrowing under our Revolving Credit Agreement, \$7.0 million of which must be used to pay remaining income tax obligations. Availability under the Revolving Credit Agreement depends upon, among other things, our continued compliance with certain operating covenants and financial ratios. Emmis was in compliance with these covenants as of May 2, 2019.

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 Operating Company's credit facility substantially limits our ability to make acquisitions. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so. See Note 7 to our consolidated financial statements for a discussion of dispositions that occurred during the three years ended February 2019.

INTANGIBLES

As of February 28, 2019, approximately 74% of our total assets consisted of FCC licenses and goodwill, the value of which depends significantly upon the operational results of our businesses. 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 the activities of our stations for compliance with regulatory requirements. Historically, all of our FCC licenses have been renewed (or a waiver has been granted pending renewal) at the end of their respective eight-year periods, and we expect that all of our FCC licenses will continue to be renewed in the future.

SEASONALITY

Our results of operations are usually subject to seasonal fluctuations, which result in higher second and third quarter revenues and operating income. For our radio operations, this seasonality is due to the younger demographic composition of many of our stations. Advertisers increase spending during the summer months to target these listeners. In addition, advertisers generally increase spending during the months of October and November, which are part of our third quarter, in anticipation of the holiday season.

INFLATION

The impact of inflation on operations has not been significant to date. However, there can be no assurance that a high rate of inflation in the future would not have an adverse effect on operating results, particularly since our senior bank debt is comprised entirely of variable-rate debt.

OFF-BALANCE SHEET FINANCINGS AND LIABILITIES

Other than lease commitments, legal contingencies incurred in the normal course of business, contractual commitments to purchase goods and services and employment contracts for key employees, all of which are discussed in Note 11 to the consolidated financial statements, the Company does not have any material off-balance sheet financings or liabilities. The Company does not have any majority-owned and controlled subsidiaries that are not included in the consolidated financial statements, nor does the Company have any interests in or relationships with any "special-purpose entities" that are not reflected in the consolidated financial statements or disclosed in the Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Emmis Communications Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Emmis Communications Corporation and Subsidiaries (the Company) as of February 28, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in equity (deficit), and cash flows for each of the three years in the period ended February 28, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 28, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Indianapolis, Indiana

May 9, 2019

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the year ended February 28,		
	2017	2018	2019
NET REVENUES	\$ 214,568	\$ 148,487	\$ 114,131
OPERATING EXPENSES:			
Station operating expenses excluding depreciation and amortization expense	180,085	119,758	91,033
Corporate expenses excluding depreciation and amortization expense	11,359	10,712	10,313
Impairment loss on intangible assets	9,843	265	343
Depreciation and amortization	4,806	3,628	3,213
Gain on sale of radio and publishing assets, net of disposition costs	(23,557)	(76,604)	(31,817)
Loss (gain) on sale of assets	124	(69)	57
Total operating expenses	<u>182,660</u>	<u>57,690</u>	<u>73,142</u>
OPERATING INCOME	<u>31,908</u>	<u>90,797</u>	<u>40,989</u>
OTHER EXPENSE:			
Interest expense	(18,018)	(15,143)	(8,103)
Loss on debt extinguishment	(620)	(2,662)	(779)
Other (expense) income, net	(160)	35	139
Total other expense	<u>(18,798)</u>	<u>(17,770)</u>	<u>(8,743)</u>
INCOME BEFORE INCOME TAXES	13,110	73,027	32,246
(BENEFIT) PROVISION FOR INCOME TAXES	(110)	(11,732)	6,167
CONSOLIDATED NET INCOME	13,220	84,759	26,079
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	101	2,630	2,727
NET INCOME ATTRIBUTABLE TO THE COMPANY	<u>\$ 13,119</u>	<u>\$ 82,129</u>	<u>\$ 23,352</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS - (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the year ended February 28,		
	2017	2018	2019
Basic net income per share attributable to common shareholders:	\$ 1.09	\$ 6.65	\$ 1.85
Diluted net income per share attributable to common shareholders:	\$ 1.07	\$ 6.50	\$ 1.74
Basic weighted average common shares outstanding	12,040	12,347	12,606
Diluted weighted average common shares outstanding	12,229	12,626	13,448

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the year ended February 28,		
	2017	2018	2019
CONSOLIDATED NET INCOME	\$ 13,220	\$ 84,759	\$ 26,079
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	101	2,630	2,727
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 13,119</u>	<u>\$ 82,129</u>	<u>\$ 23,352</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	FEBRUARY 28,	
	2018	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,107	\$ 5,438
Restricted cash	2,008	2,504
Accounts receivable, net of allowance for doubtful accounts of \$539 and \$395, respectively	20,594	16,775
Prepaid expenses	3,234	3,831
Assets held for sale	26,170	—
Other	3,680	1,446
Total current assets	59,793	29,994
PROPERTY AND EQUIPMENT:		
Land and buildings	26,608	26,443
Leasehold improvements	9,239	9,036
Broadcasting equipment	34,623	33,089
Office equipment, computer equipment, software and automobiles	24,773	21,040
Construction in progress	696	19
	95,939	89,627
Less-accumulated depreciation and amortization	69,338	66,150
Total property and equipment, net	26,601	23,477
INTANGIBLE ASSETS:		
Indefinite lived intangibles	170,890	170,547
Goodwill	4,338	4,338
Other intangibles	2,154	2,154
	177,382	177,039
Less-accumulated amortization	1,101	1,396
Total intangible assets, net	176,281	175,643
OTHER ASSETS:		
Investments	800	800
Deposits and other	7,669	7,832
Total other assets	8,469	8,632
Total assets	\$ 271,144	\$ 237,746

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS – (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	FEBRUARY 28,	
	2018	2019
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 6,394	\$ 4,451
Current maturities of long-term debt	16,037	32,150
Accrued salaries and commissions	3,541	2,570
Deferred revenue	4,030	4,055
Income taxes payable	381	11,218
Other	2,314	2,922
Total current liabilities	32,697	57,366
LONG-TERM DEBT, NET OF CURRENT PORTION	122,849	48,757
OTHER NONCURRENT LIABILITIES	5,932	6,024
DEFERRED INCOME TAXES	31,403	25,232
Total liabilities	192,881	137,379
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
SHAREHOLDERS' EQUITY:		
Class A common stock, \$0.01 par value; authorized 42,500,000 shares; issued and outstanding 11,649,440 shares and 11,809,291 shares at February 28, 2018 and 2019, respectively	116	118
Class B common stock, \$0.01 par value; authorized 7,500,000 shares; issued and outstanding 1,142,366 shares and 1,242,366 shares at February 28, 2018 and 2019, respectively	11	12
Class C common stock, \$0.01 par value, authorized 7,500,000 shares; none issued	—	—
Additional paid-in capital	594,708	595,984
Accumulated deficit	(547,252)	(523,900)
Total shareholders' equity	47,583	72,214
NONCONTROLLING INTERESTS	30,680	28,153
Total equity	78,263	100,367
Total liabilities and equity	\$ 271,144	\$ 237,746

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
FOR THE THREE YEARS ENDED FEBRUARY 28, 2019
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	Class A Common Stock		Class B Common Stock		Series A Preferred Stock		APIC	Accumulated Deficit	Noncontrolling Interests	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE, FEBRUARY 29, 2016	<u>10,402,400</u>	<u>\$ 104</u>	<u>1,142,366</u>	<u>\$ 11</u>	<u>866,319</u>	<u>\$ 9</u>	<u>\$589,830</u>	<u>\$ (642,500)</u>	<u>\$ 38,397</u>	<u>\$ (14,149)</u>
Net income	—	—	—	—	—	—	—	13,119	101	13,220
Exercise of stock options and related income tax benefits	57,738	1	—	—	—	—	114	—	—	115
Issuance of Common Stock to employees and officers and related income tax benefits	213,197	2	—	—	—	—	2,372	—	—	2,374
Conversion of Preferred Stock to Class A Common Stock	606,423	6	—	—	(866,319)	(9)	9	—	—	6
Purchase of Class A Common Stock	(1,693)	—	—	—	—	—	(5)	—	—	(5)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(5,577)	(5,577)
BALANCE, FEBRUARY 28, 2017	<u>11,278,065</u>	<u>\$ 113</u>	<u>1,142,366</u>	<u>\$ 11</u>	<u>-</u>	<u>\$ -</u>	<u>\$592,320</u>	<u>\$ (629,381)</u>	<u>\$ 32,921</u>	<u>\$ (4,016)</u>
Net income	—	—	—	—	—	—	—	82,129	2,630	84,759
Exercise of stock options and related income tax benefits	52,250	—	—	—	—	—	131	—	—	131
Issuance of Common Stock to employees and officers and related income tax benefits	319,125	3	—	—	—	—	2,257	—	—	2,260
Conversion of Preferred Stock to Class A Common Stock	—	—	—	—	—	—	—	—	—	—
Purchase of Class A Common Stock	—	—	—	—	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(4,871)	(4,871)
BALANCE, FEBRUARY 28, 2018	<u>11,649,440</u>	<u>\$ 116</u>	<u>1,142,366</u>	<u>\$ 11</u>	<u>—</u>	<u>\$ —</u>	<u>\$594,708</u>	<u>\$ (547,252)</u>	<u>\$ 30,680</u>	<u>\$ 78,263</u>
Net income	—	—	—	—	—	—	—	23,352	2,727	26,079
Exercise of stock options and related income tax benefits	157,918	2	—	—	—	—	366	—	—	368
Issuance of Common Stock to employees and officers and related income tax benefits	1,933	—	100,000	1	—	—	910	—	—	911
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(5,254)	(5,254)
BALANCE, FEBRUARY 28, 2019	<u>11,809,291</u>	<u>\$ 118</u>	<u>1,242,366</u>	<u>\$ 12</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$595,984</u>	<u>\$ (523,900)</u>	<u>\$ 28,153</u>	<u>\$100,367</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	FOR THE YEAR ENDED FEBRUARY 28 (29),		
	2017	2018	2019
OPERATING ACTIVITIES:			
Consolidated net income	\$ 13,220	\$ 84,759	\$ 26,079
Adjustments to reconcile net income to net cash provided by (used in) operating activities—			
Gain on sale of radio and publishing assets, net of disposition costs	(23,557)	(76,604)	(31,817)
Impairment losses on long-lived assets	9,843	265	647
Loss on debt extinguishment	620	2,662	779
Noncash accretion of debt instruments to interest expense	743	495	82
Amortization of deferred financing costs, including original issue discount	1,661	2,536	1,198
Impairment of assets held for sale	—	—	205
Depreciation and amortization	4,806	3,628	3,213
Provision for bad debts	377	699	816
Benefit for deferred income taxes	(178)	(12,134)	(6,171)
Noncash compensation	2,920	2,654	1,554
Loss on investments including other-than-temporary impairment	254	—	—
Loss (gain) on sale of assets	124	(69)	57
Changes in assets and liabilities—			
Accounts receivable	3,460	5,191	3,003
Prepaid expenses and other current assets	1,639	(631)	948
Other assets	(644)	(507)	(161)
Accounts payable and accrued liabilities	5,131	(9,701)	(4,845)
Deferred revenue	(294)	(463)	597
Income taxes	(76)	(121)	10,810
Other liabilities	(788)	(2,733)	745
Net cash provided by (used in) operating activities	<u>19,261</u>	<u>(74)</u>	<u>7,739</u>
INVESTING ACTIVITIES:			
Purchases of property and equipment	(2,850)	(1,809)	(518)
Proceeds from the sale of assets	31,980	80,238	60,171
Other	19	—	—
Net cash provided by investing activities	<u>29,149</u>	<u>78,429</u>	<u>59,653</u>
FINANCING ACTIVITIES:			
Payments on long-term debt	(55,970)	(100,833)	(62,538)
Proceeds from long-term debt	21,350	21,690	2,500
Settlement of tax withholding obligations	(539)	(393)	(641)
Dividends and distributions paid to noncontrolling interests	(5,577)	(4,871)	(5,254)
Proceeds from exercise of stock options and employee stock purchases	115	131	368
Payments for debt related costs	(32)	(1,636)	—
Other	(5)	—	—
Net cash used in financing activities	<u>(40,658)</u>	<u>(85,912)</u>	<u>(65,565)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,752	(7,557)	1,827
CASH AND CASH EQUIVALENTS:			
Beginning of period	5,920	13,672	6,115
End of period	<u>\$ 13,672</u>	<u>\$ 6,115</u>	<u>\$ 7,942</u>
SUPPLEMENTAL DISCLOSURES:			
Cash paid for (refund from) —			
Interest	\$ 15,618	\$ 13,334	\$ 5,765
Income taxes	112	2,636	(467)
Noncash financing transactions —			
Value of stock issued to employees under stock compensation program and to satisfy accrued incentives	2,920	2,650	1,554

The accompanying notes to consolidated financial statements are an integral part of these statements.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS UNLESS INDICATED OTHERWISE)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The following discussion pertains to Emmis Communications Corporation (“ECC”) and its subsidiaries (collectively, “Emmis,” the “Company,” or “we”). All significant intercompany balances and transactions have been eliminated.

Organization

We are a diversified media company, principally focused on radio broadcasting. Emmis owns 11 FM and 3 AM radio stations in New York, Indianapolis, and Austin (Emmis has a 50.1% controlling interest in Emmis’ radio stations located there). One of the FM radio stations that Emmis currently owns in New York is operated pursuant to a Local Marketing Agreement (“LMA”) whereby a third party provides the programming for the station and sells all advertising within that programming. On April 30, 2018, we sold our four radio stations in St. Louis. These stations were being operated pursuant to LMAs, which commenced on March 1, 2018 and remained in effect until the stations were sold.

In addition to our radio properties, we also publish *Indianapolis Monthly* and operate Digonex, a dynamic pricing business.

Substantially all of ECC’s business is conducted through its subsidiaries. Our long-term debt agreements contain certain provisions that may restrict the ability of ECC’s subsidiaries to transfer funds to ECC in the form of cash dividends, loans or advances.

Common Stock Reverse Split

On July 8, 2016, the Company effected a one-for-four reverse stock split for its Class A, Class B and Class C common stock. All share and per share information has been retroactively adjusted to reflect the reverse stock split.

Revenue Recognition

The Company generates 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 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.

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 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 stations’ 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:

	For the Year Ended February 28,					
	2017	% of Total	2018	% of Total	2019	% of Total
Net revenues:						
Advertising	\$ 145,710	67.9%	\$ 98,667	66.4%	\$ 74,597	65.4%
Circulation	4,193	2.0%	412	0.3%	384	0.3%
Non Traditional	22,936	10.7%	17,280	11.6%	12,897	11.3%
LMA Fees	10,331	4.8%	10,752	7.2%	11,050	9.7%
Digital	14,737	6.9%	10,058	6.8%	5,500	4.8%
Other	16,661	7.7%	11,318	7.7%	9,703	8.5%
Total net revenues	<u>\$ 214,568</u>		<u>\$ 148,487</u>		<u>\$ 114,131</u>	

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded based on management's judgment of the collectability of receivables. When assessing the collectability of receivables, management considers, among other things, historical loss experience and existing economic conditions. Amounts are written off after all normal collection efforts have been exhausted. The activity in the allowance for doubtful accounts for the three years ended February 28, 2019 was as follows:

	Balance At Beginning Of Year	Provision	Write-Offs	Balance At End Of Year
Year ended February 28, 2017	\$ 934	\$ 377	\$ (408)	\$ 903
Year ended February 28, 2018	903	699	(1,063)	539
Year ended February 28, 2019	539	816	(960)	395

Local Programming and Marketing Agreement Fees

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

On April 26, 2012, the Company entered into an LMA with New York AM Radio, LLC ("98.7FM Programmer") pursuant to which, commencing April 30, 2012, 98.7FM Programmer purchased from Emmis the right to provide programming on 98.7FM until August 31, 2024. Disney Enterprises, Inc., the parent company of 98.7FM Programmer, has guaranteed the obligations of 98.7FM Programmer under the LMA. The Company retains ownership and control of the station, including the related FCC license during the term of the LMA and received an annual fee from 98.7FM Programmer of \$8.4 million for the first year of the term under the LMA, which fee increases by 3.5% each year thereafter until the LMA's termination. This LMA fee revenue is recorded on a straight-line basis over the term of the LMA. Emmis retains the FCC license of 98.7FM after the term of the LMA expires.

On May 8, 2017, Emmis and an affiliate of the Meruelo Group (the "Meruelo Group") entered into an LMA and asset purchase agreement related to KPWR-FM in Los Angeles. This LMA started on July 1, 2017 and terminated with the consummation of the sale of KPWR-FM on August 1, 2017. Emmis recognized \$0.4 million of LMA fee revenue which is included in net revenues in our accompanying consolidated statements of operations during the year ended February 28, 2018. See Note 7 for more discussion of our sale of KPWR-FM to the Meruelo Group.

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 is included in net revenues in our accompanying consolidated statements of operations during the year ended February 28, 2019. See Note 7 for more discussion of our sale of our St. Louis radio stations.

LMA fees recorded as net revenues in the accompanying consolidated statements of operations were as follows for the three years ended February 28, 2019:

	For the years ended February 28,		
	2017	2018	2019
98.7FM, New York	\$ 10,331	\$ 10,331	\$ 10,331
KPWR-FM, Los Angeles	—	421	—
St. Louis Radio Cluster	—	—	719
Total LMA fees	<u>\$ 10,331</u>	<u>\$ 10,752</u>	<u>\$ 11,050</u>

Share-based Compensation

The Company determines the fair value of its employee stock options at the date of grant using a Black-Scholes option-pricing model. The Black-Scholes option pricing model was developed for use in estimating the value of exchange-traded options that have no vesting restrictions and are fully transferable. The Company's employee stock options have characteristics significantly different than these traded options. In addition, option pricing models require the input of highly subjective assumptions, including the expected stock price volatility and expected term of the options granted. The Company relies heavily upon historical data of its stock price when determining expected volatility, but each year the Company reassesses whether or not historical data is representative of expected results. See Note 4 for more discussion of share-based compensation.

Cash and Cash Equivalents

Emmis considers time deposits, money market fund shares and all highly liquid debt investment instruments with original maturities of three months or less to be cash equivalents. At times, such deposits may be in excess of FDIC insurance limits.

Restricted Cash

As of February 28, 2019, 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 and cash held by JPMorgan Chase as collateral to secure the Company's corporate purchasing card and travel and expense programs. Restricted cash as of February 28, 2018 also included cash held in escrow related to our sale of *Los Angeles Magazine*, *Atlanta Magazine*, *Cincinnati Magazine* and *Orange Coast Magazine*. The funds held in escrow as of February 28, 2018 were released during fiscal 2019 as the Company settled litigation with the buyer of these magazines during the year. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the same amounts shown in the consolidated statements of cash flows:

	As of February 28,	
	2018	2019
Cash and cash equivalents	\$ 4,107	\$ 5,438
Restricted cash:		
98.7FM LMA restricted cash (see Note 8)	1,358	1,504
Cash used to secure the Company's purchasing card and travel and expense programs	—	1,000
Cash held in escrow from magazine sale restricted cash (see Note 7)	650	—
Total cash, cash equivalents and restricted cash	<u>\$ 6,115</u>	<u>\$ 7,942</u>

Property and Equipment

Property and equipment are recorded at cost. Depreciation is generally computed using the straight-line method over the estimated useful lives of the related assets, which are 39 years for buildings, the shorter of economic life or expected lease term for leasehold improvements, five to seven years for broadcasting equipment, five years for automobiles, office equipment and computer equipment, and three to five years for software. Maintenance, repairs and minor renewals are expensed as incurred; improvements are capitalized. On a continuing basis, the Company reviews the carrying value of property and equipment for impairment. If events or changes in circumstances were to indicate that an asset carrying value may not be recoverable, a write-down of the asset would be recorded through a charge to operations. See below for more discussion of impairment policies related to our property and equipment. Depreciation expense for the years ended February 2017, 2018 and 2019 was \$4.1 million, \$3.3 million and \$2.9 million, respectively.

Intangible Assets and Goodwill

Indefinite-lived Intangibles and Goodwill

In connection with past acquisitions, a significant amount of the purchase price was allocated to radio broadcasting licenses, goodwill and other intangible assets. Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired. In accordance with ASC Topic 350, "*Intangibles—Goodwill and Other*," goodwill and radio broadcasting licenses are not amortized, but are tested at least annually for impairment at the reporting unit level and unit of accounting level, respectively. We test for impairment annually, on December 1 of each year, or more frequently when events or changes in circumstances or other conditions suggest impairment may have occurred. Impairment exists when the asset carrying values exceed their respective fair values, and the excess is then recorded to operations as an impairment charge. See Note 9, Intangible Assets and Goodwill, for more discussion of our interim and annual impairment tests performed during the three years ended February 28, 2019.

Definite-lived Intangibles

The Company's definite-lived intangible assets primarily consist of trademarks, which are amortized over the period of time the intangible assets are expected to contribute directly or indirectly to the Company's future cash flows.

Advertising and Subscription Acquisition Costs

Advertising and subscription acquisition costs are expensed when incurred. Advertising expense and subscription acquisition costs for the years ended February 2017, 2018 and 2019 were \$5.7 million, \$2.6 million and \$1.6 million, respectively.

Investments

For those investments in common stock or in-substance common stock in which the Company has the ability to exercise significant influence over the operating and financial policies of the investee, the investment is accounted for under the equity method. For those investments in which the Company does not have such significant influence, the Company applies the accounting guidance for certain investments in debt and equity securities.

Equity method investment

Emmis had a minority interest in a partnership that owns and operates various entertainment websites. During the year ended February 28, 2017, Emmis recorded a noncash impairment charge of \$0.3 million in other (expense) income, net in the accompanying consolidated statements of operations as it deemed the investment was impaired and the impairment was other-than-temporary. This impairment charge reduced the carrying value of this investment to zero as of February 28, 2017. Emmis sold its noncontrolling stake in this partnership in March 2017. Proceeds from this sale were immaterial.

Available for sale investment

Emmis' available for sale investment is an investment in the preferred shares of a non-public company. This investment is accounted for under the provisions of ASC 320, and as such, is carried at its fair value, which Emmis believes approximates its cost basis of \$0.8 million.

Unrealized gains and losses would be reported in other comprehensive income until realized, at which point they would be recognized in the consolidated statements of operations. If the Company determines that the value of an investment is other-than-temporarily impaired, the Company will recognize, through the statements of operations, a loss on the investment.

Deferred Revenue and Barter Transactions

Deferred revenue includes deferred barter, other transactions in which payments are received prior to the performance of services (i.e. cash-in-advance advertising and prepaid LMA payments), and deferred magazine subscription revenue. Barter transactions are recorded at the estimated fair value of the product or service received. Revenue from barter transactions is recognized when commercials are broadcast or a publication is delivered. The appropriate expense or asset is recognized when merchandise or services are used or received. Magazine subscription revenue is recognized when the publication is shipped. Barter revenues for the years ended February 2017, 2018 and 2019 were \$7.8 million, \$4.7 million and \$3.4 million, respectively, and barter expenses were \$7.9 million, \$4.8 million, and \$3.5 million, respectively.

Earnings Per Share

ASC Topic 260 requires dual presentation of basic and diluted income per share ("EPS") on the face of the income statement for all entities with complex capital structures. Basic EPS is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities for the three years ended February 28, 2019 consisted of stock options and restricted stock awards.

The following table sets forth the calculation of basic and diluted net income per share from continuing operations:

	February 28, 2017		For the year ended February 28, 2018			February 28, 2019			
	Net Income	Net Income e Per Share	Net Income e Per Share	Net Income e Per Share	Net Income e Per Share	Net Income e Per Share	Net Income e Per Share		
		Shares		Shares	Per Share		Shares	Per Share	
	(amounts in 000's, except per share data)								
Basic net income per common share:									
Net income available to common shareholders from continuing operations	\$ 13,119	12,040	\$ 1.09	\$ 82,129	12,347	\$ 6.65	\$ 23,352	12,606	\$ 1.85
Impact of equity awards	—	189		—	279		—	842	
Diluted net income per common share:									
Net income available to common shareholders from continuing operations	<u>\$ 13,119</u>	<u>12,229</u>	\$ 1.07	<u>\$ 82,129</u>	<u>12,626</u>	\$ 6.50	<u>\$ 23,352</u>	<u>13,448</u>	\$ 1.74

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 year ended February 28,		
	2017	2018	2019
	(shares in 000's)		
Stock options and restricted stock awards	1,341	1,951	1,089

Income 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.

Long-Lived Tangible Assets

The Company periodically considers whether indicators of impairment of long-lived tangible assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question are less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals and other methods. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment charge to the extent the asset's carrying value is greater than the fair value. The fair value of the asset then becomes the asset's new carrying value, which, if applicable, the Company depreciates or amortizes over the remaining estimated useful life of the asset.

During the year ended February 28, 2019, the Company dramatically scaled back the operations of its TagStation business in Chicago. In connection with this decision, the Company recorded an impairment charge of \$0.3 million related to the long-lived tangible assets of TagStation. This charge is included in station operating expenses, excluding depreciation and amortization expense in the accompanying consolidated statements of operations.

Noncontrolling Interests

The Company follows Accounting Standards Codification paragraph 810-10-65-1 to report the noncontrolling interests related to our Austin radio partnership and Digonex. We have a 50.1% controlling interest in our Austin radio partnership. We do not own any of the common equity of Digonex, but we consolidate the entity because we control its board of directors via rights granted in convertible preferred stock and convertible debt that we own. As of February 28, 2019, Emmis owns rights that are convertible into approximately 84% of Digonex's common equity.

Noncontrolling interests represents the noncontrolling interest holders' proportionate share of the equity of the Austin radio partnership and Digonex. Noncontrolling interests are adjusted for the noncontrolling interest holders' proportionate share of the earnings or losses of the applicable entity. The noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. Below is a summary of the noncontrolling interest activity for the years ended February 2018 and 2019:

	Austin Radio Partnership	Digonex	Total Noncontrolling Interests
Balance, February 28, 2017	\$ 46,830	\$ (13,909)	\$ 32,921
Net income (loss)	5,465	(2,835)	2,630
Payments of dividends and distributions to noncontrolling interests	(4,871)	—	(4,871)
Balance, February 28, 2018	<u>47,424</u>	<u>(16,744)</u>	<u>30,680</u>
Net income (loss)	4,976	(2,249)	2,727
Payments of dividends and distributions to noncontrolling interests	(5,254)	—	(5,254)
Balance, February 28, 2019	<u>\$ 47,146</u>	<u>\$ (18,993)</u>	<u>\$ 28,153</u>

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

National Representation Agreement

On October 1, 2007, Emmis terminated its existing national sales representation agreement with Interep National Radio Sales, Inc. ("Interep") and entered into a new agreement with Katz Communications, Inc. ("Katz") extending to March 2018. Emmis' existing contract with Interep at the time extended through September 2011. Emmis, Interep and Katz entered into a tri-party termination and mutual release agreement under which Interep agreed to release Emmis from its future contractual obligations in exchange for a one-time payment of \$15.3 million, which was paid by Katz on behalf of Emmis as an inducement for Emmis to enter into the new long-term contract with Katz. Emmis measured and recognized the charge associated with terminating the Interep contract as of the effective termination date, which was recorded as a noncash contract termination fee in the year ended February 2008. The liability established as a result of the termination represented an

incentive received from Katz that was recognized as a reduction of our national agency commission expense over the term of the agreement with Katz.

Liquidity and Going Concern

In accordance with Accounting Standards Update 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a 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, including interim periods.

In evaluating the Company's ability to continue as a going concern, 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 after the date that the financial statements were issued (May 9, 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 May 9, 2020.

The Company successfully refinanced its 2014 Credit Agreement Debt in April 2019. Accordingly, the Company believes it has the ability to meet its obligations for at least one year from the date of issuance of this Form 10-K. See Note 16 for more discussion of the April 2019 refinance.

Recent Accounting Standards Updates

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 June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326), which introduces new guidance for an approach based on using expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Instruments in scope include loans, held-to-maturity debt securities, and net investments in leases as well as reinsurance and trade receivables. This standard will be effective for us as of March 1, 2020. We are currently evaluating the impact that the adoption of the new standard will have on our 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. Upon adoption on March 1, 2019, we expect to recognize a right of use asset and corresponding lease liability of \$27 million to \$31 million, representing the present value of future lease payments required under our lessee arrangements. We utilized lease terms ranging from 2019 to 2032, including periods for which exercising an extension option is reasonably assured and discount rates from 5.1% to 6.2% when determining the present value of future lease payments. All of our existing lessee arrangements upon adoption will continue to be classified as operating leases, in which case the pattern of lease expense recognition will be unchanged.

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 this guidance on March 1, 2018 using the modified retrospective method with no impact on its consolidated financial statements for the three years ending February 28, 2018. The cumulative effect of initially applying the new guidance had no impact on the opening balance of retained earnings as of March 1, 2018 and the Company does not expect this guidance will have a material impact on its consolidated financial statements in future periods.

2. COMMON STOCK

Emmis has authorized Class A common stock, Class B common stock, and Class C common stock. The rights of these three classes are essentially identical except that each share of Class A common stock has one vote with respect to substantially all matters, each share of Class B common stock has 10 votes with respect to substantially all matters, and each share of Class C common stock has no voting rights with respect to substantially all matters. All Class B common stock is owned by our Chairman, CEO and President, Jeffrey H. Smulyan, and automatically converts to Class A common stock upon sale or other transfer to a party unaffiliated with Mr. Smulyan. At February 28, 2018 and 2019, no shares of Class C common stock were issued or outstanding.

On July 8, 2016, the Company effected a one-for-four reverse stock split. As a result of the reverse stock split, every four shares of each class of the Company's outstanding common stock were combined into one share of the same class of common stock and the authorized shares of each class of the Company's common stock were reduced by the same ratio. In lieu of issuing fractional shares, the Company paid in cash the fair value of such fractions of a share as of July 7, 2016. Such fair value was \$0.695 for each pre-split share of our outstanding common stock, which was the average closing sales price of the Class A common stock as reported by the Nasdaq Global Select Market for the thirty

trading days preceding such date. The number and strike price of the Company's outstanding stock options were adjusted proportionally. The par value of the Company's common stock was not adjusted as a result of the reverse stock split.

3. REDEEMABLE PREFERRED STOCK

The Company's redeemable Preferred Stock was delisted from the Nasdaq Global Select Market on March 28, 2016. Pursuant to the Company's Articles of Incorporation, all shares of Preferred Stock were converted into shares of Class A common stock on April 4, 2016. Subsequent to the mandatory conversion on April 4, 2016, no shares of the Company's redeemable Preferred Stock remain outstanding. On various dates during the year ended February 28, 2017, including the mandatory conversion date of April 4, 2016, 866,319 shares of Preferred Stock were originally converted into 2,452,692 shares of Class A common stock (606,423 shares of Class A common stock after the one-for-four reverse stock split).

4. SHARE BASED PAYMENTS

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

Stock Option Awards

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

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 years ended February 2017, 2018 and 2019:

	For the Years Ended February 28,		
	2017	2018	2019
Risk-Free Interest Rate:	0.9% - 1.8%	1.7% - 2.0%	2.6% - 2.8%
Expected Dividend Yield:	0%	0%	0%
Expected Life (Years):	4.3 - 4.4	4.4	4.8 - 4.9
Expected Volatility:	52.9% - 60.0%	52.9% - 53.9%	51.3% - 53.2%

The following table presents a summary of the Company's stock options outstanding at February 28, 2019, and stock option activity during the year ended February 28, 2019 ("Price" reflects the weighted average exercise price per share):

	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 (1)	157,918	2.32		
Forfeited	5,500	4.16		
Expired	46,995	8.92		
Outstanding, end of period	2,739,916	4.72	6.0	\$ 1,770
Exercisable, end of period	2,131,741	5.08	5.2	\$ 1,334

(1) The Company did not record an income tax benefit related to option exercises in the years ended February 2017, 2018 and 2019. Cash received from option exercises during the years ended February 2017, 2018 and 2019 was \$0.1 million, \$0.1 million and \$0.4 million, respectively.

The weighted average grant date fair value of options granted during the years ended February 2017, 2018 and 2019, was \$1.20, \$1.25 and \$2.27, respectively.

A summary of the Company's nonvested options at February 28, 2019, and changes during the year ended February 28, 2019, is presented below:

	Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	691,114	\$ 2.10
Granted	259,000	2.27
Vested	336,439	3.07
Forfeited	5,500	2.03
Nonvested, end of period	<u>608,175</u>	1.64

There were 2.0 million shares available for future grants under the Company's various equity plans at February 28, 2019 (1.7 million shares under the 2017 Equity Compensation Plan and 0.3 million shares under other plans). The vesting dates of outstanding options at February 28, 2019 range from March 2019 to July 2021, and expiration dates range from March 2019 to July 2028.

Restricted Stock Awards

The Company periodically grants restricted stock award 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 award grants 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 February 28, 2019, and restricted stock activity during the year ended February 28, 2019 ("Price" reflects the weighted average share price at the date of grant):

	Awards	Price
Grants outstanding, beginning of period	353,394	\$ 3.05
Granted	219,356	4.45
Vested (restriction lapsed)	307,643	3.72
Forfeited	—	—
Grants outstanding, end of period	<u>265,107</u>	3.43

The total grant date fair value of shares vested during the years ended February 2017, 2018 and 2019, was \$1.8 million, \$1.1 million and \$1.1 million, respectively.

Recognized Non-Cash Compensation Expense

The following table summarizes stock-based compensation expense and related tax benefits recognized by the Company in the years ended February 2017, 2018 and 2019:

	Year Ended February 28,		
	2017	2018	2019
Station operating expenses	\$ 1,012	\$ 501	\$ 291
Corporate expenses	1,908	2,153	1,263
Stock-based compensation expense included in operating expenses	2,920	2,654	1,554
Tax benefit	—	—	—
Recognized stock-based compensation expense, net of tax	<u>\$ 2,920</u>	<u>\$ 2,654</u>	<u>\$ 1,554</u>

As of February 28, 2019, there was \$0.9 million of unrecognized compensation cost, net of estimated forfeitures, related to nonvested share-based compensation arrangements. The cost is expected to be recognized over a weighted average period of approximately 1.5 years.

5. LONG-TERM DEBT

Long-term debt was comprised of the following at February 28, 2018 and 2019:

	As of February 28, 2018	As of February 28, 2019
Revolver	\$ 9,000	\$ —
Term Loan	69,451	25,000
Total 2014 Credit Agreement debt	78,451	25,000
Other nonrecourse debt ⁽¹⁾	9,992	10,074
98.7FM nonrecourse debt	53,919	47,332
Current maturities	(16,037)	(32,150)
Unamortized original issue discount	(3,476)	(1,499)
Total long-term debt	<u>\$ 122,849</u>	<u>\$ 48,757</u>

(1) The face value of other nonrecourse debt was \$10.2 million at February 28, 2018 and 2019.

On April 12, 2019, Emmis refinanced its 2014 Credit Agreement debt. See Note 16 for more discussion of our new long-term debt.

2014 Credit Agreement Debt

On June 10, 2014, Emmis entered into the 2014 Credit Agreement, by and among the Company, EOC, as borrower (the “Borrower”), certain other subsidiaries of the Company, as guarantors (the “Subsidiary Guarantors”) 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 consisted of remaining balances of a term loan (\$69.5 million and \$25.0 million as of February 28, 2018 and 2019, respectively), and as of February 28, 2018, a revolving credit facility balance of \$9.0 million. 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 consolidated financial statements.

The term loan was due not later than April 18, 2019. Amounts outstanding under the 2014 Credit Agreement bore 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 thereafter 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 increased by an additional 0.5% and the interest rate on amounts outstanding increased by 0.5%. The weighted average borrowing rate of amounts outstanding related to the 2014 Credit Agreement was 8.7% and 10.5% at February 28, 2018 and 2019, respectively.

Our 2014 Credit Agreement debt was carried net of an unamortized original issue discount of \$0.1 million as of February 28, 2019. The original issue discount was amortized as additional interest expense over the life of the 2014 Credit Agreement.

The 2014 Credit Agreement required 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 obligations under the 2014 Credit Agreement were 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 required the Company to comply with certain financial and non-financial covenants. These covenants included a Total Leverage Ratio covenant of 4.00:1.00. Our Total Leverage Ratio for the year ended February 28, 2019 was 2.24:1.00. We were in compliance with all financial and non-financial covenants as of February 28, 2019.

98.7FM Nonrecourse Debt

On May 30, 2012, the Company, through wholly-owned, newly-created subsidiaries, issued \$82.2 million of nonrecourse notes. Teachers Insurance and Annuity Association of America, 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’s subsidiaries and are secured by the assets of the newly-created subsidiaries, including the payments made to the newly-created subsidiary related to the 98.7FM LMA, which are guaranteed by Disney Enterprises, Inc. The notes bear interest at 4.1%.

Our 98.7FM nonrecourse debt is carried net of an unamortized original issue discount of \$1.4 million as of February 28, 2019. The original issue discount is being amortized as additional interest expense over the life of the 98.7FM nonrecourse debt.

Other Nonrecourse Debt

Digonex issued \$6.2 million of notes payable prior to Emmis’ acquisition of a controlling interest of Digonex on June 16, 2014. Emmis recorded these notes at fair value in its purchase price allocation as of June 16, 2014. The difference between the fair value recorded on June 16, 2014 and the face value of the notes is being accreted as additional interest expense through the maturity date of the notes. The notes are obligations of Digonex only and are non-recourse to the rest of Emmis’ subsidiaries. Approximately \$1.5 million of the Digonex notes are secured by the assets of Digonex and the remaining \$4.7 million are unsecured. The notes bear simple interest at 5% with interest due at maturity of the notes on December 31, 2020.

NextRadio, LLC issued \$4.0 million of notes payable. As of February 28, 2019, these notes bear interest at 2.0%. The first interest payment on these notes was due on August 15, 2018. As of May 9, 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 Next Radio, 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 NextRadio, LLC never achieved profitability, with their losses having expanded in recent years as a result of investments in data attribution capabilities. During the year ended February 28, 2019, 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 and have terminated the employment of all of their employees.

Based on amounts outstanding at February 28, 2019, 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 Debt	Other Nonrecourse Debt	Total
2020	\$ 25,000	\$ 7,150	\$ —	\$ 32,150
2021	—	7,755	6,239	13,994
2022	—	8,394	4,000	12,394
2023	—	9,069	—	9,069
2024	—	9,783	—	9,783
Thereafter	—	5,181	—	5,181
Total	\$ 25,000	\$ 47,332	\$ 10,239	\$ 82,571

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 2019. 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 February 28, 2019			Total
	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	
Available for sale securities	\$ —	\$ —	\$ 800	\$ 800
Total assets measured at fair value on a recurring basis	\$ —	\$ —	\$ 800	\$ 800

	As of February 28, 2018			Total
	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	
Available for sale securities	\$ —	\$ —	\$ 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. The preferred stock is recorded at fair value, which is generally estimated using significant unobservable market

parameters, resulting in a level 3 categorization. The carrying value of our available for sale securities is determined by using implied valuations of recent rounds of financing and by other corroborating evidence, including the application of various valuation methodologies including option-pricing and discounted cash flow based models.

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

	Year Ended February 28,	
	2018	2019
		Available For Sale Securities
Beginning Balance	\$ 800	\$ 800
Purchases	—	—
Ending Balance	<u>\$ 800</u>	<u>\$ 800</u>

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 9, 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 9 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. 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 February 28, 2019, the fair value and carrying value, excluding original issue discount, of the Company's 2014 Credit Agreement debt was \$24.6 million and \$25.0 million, respectively. The Company's estimate of fair value was based on quoted prices of this instrument and is considered a Level 2 measurement.

- *Other long-term debt* : The Company's 98.7FM non-recourse debt is not actively traded and is considered a level 3 measurement. The Company believes the current carrying value of this debt approximates its fair value.

7. ACQUISITIONS AND DISPOSITIONS

For the year ended February 28, 2019

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 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 were not immediately due, so we repaid amounts outstanding under our revolver and we held excess cash on our balance sheet to enhance our liquidity position. 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 an LMA from March 1, 2018 through the closing of the transactions on April 30, 2018. Affiliates of Hubbard Radio and Entercom Communications Corp paid an LMA fee to Emmis totaling \$0.7 million during this period, which is included in net revenues in the accompanying consolidated statements of operations and in the summary of our St. Louis radio station results included below.

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 the St. Louis office facility, which resulted in an additional charge of \$0.2 million. These charges are included in the gain on sale of radio and publishing assets, net of disposition costs in the accompanying consolidated statements of operations. The table below summarizes the activity related to our restructuring charge for the year ended February 28, 2019.

	For the year ended February 28, 2019
Restructuring charges and estimated lease cease-use costs, beginning balance	\$ —
Restructuring charges and estimated lease cease-use costs, St. Louis radio stations sale	1,424
Payments, net of accretion	(325)
Restructuring charges and estimated lease cease-use costs unpaid and outstanding	<u>\$ 1,099</u>

The St. Louis stations had historically been included in our Radio segment. The following table summarizes certain operating results of the St. Louis 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 stations is included in the results below. The sale of the St. Louis stations 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. The following table summarizes certain operating results of the St. Louis stations for all periods presented.

	For the year ended February 28,		
	2017	2018	2019
Net revenues	\$ 23,851	\$ 24,238	\$ 711
Station operating expenses, excluding depreciation and amortization expense	18,464	20,071	505
Depreciation and amortization	502	558	—
Impairment loss	1,293	—	—
Gain on sale of radio assets, net of disposition costs	—	—	(32,148)
Loss on sale of fixed assets	123	—	—
Operating income	3,469	3,609	32,354
Interest expense	2,910	3,379	592
Income before income taxes	559	230	31,762

For the year ended February 28, 2018

Sale of KPWR-FM

On August 1, 2017, Emmis closed on its sale of substantially all of the assets of KPWR-FM for gross proceeds of approximately \$80.1 million to affiliates of the Meruelo Group. Under the terms of the Fourth Amendment to Emmis' senior credit facility, Emmis was required to enter into definitive agreements to sell assets that generated at least \$80 million of proceeds by January 18, 2018 and to close on such transactions following receipt of required regulatory approvals. The sale of KPWR-FM satisfied these requirements. Emmis found it more advantageous to sell its standalone radio station in Los Angeles than to sell other assets to meet this requirement. After payment of transaction costs and withholding for estimated tax obligations, net proceeds totaled approximately \$73.6 million and were used to repay term loan indebtedness under Emmis' senior credit facility. Emmis recorded a \$76.7 million gain on the sale of KPWR-FM.

KPWR-FM was operated pursuant to an LMA from July 1, 2017 through the closing of the sale on August 1, 2017. Affiliates of the Meruelo Group paid an LMA fee to Emmis totaling \$0.4 million during this period, which is included in net revenues in the accompanying consolidated statements of operations and in the summary of KPWR-FM results included below.

KPWR-FM had historically been included in our Radio segment. The following table summarizes certain operating results of KPWR-FM 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 KPWR-FM is included in the results below. The sale of KPWR-FM 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. The following table summarizes certain operating results of KPWR-FM for all periods presented.

	For the year ended February 28,		
	2017	2018	2019
Net revenues	\$ 24,379	\$ 7,819	\$ —
Station operating expenses, excluding depreciation and amortization expense	16,933	6,651	—
Depreciation and amortization	401	63	—
Gain on sale of assets, net of disposition costs	—	(76,745)	—
Operating income	7,045	77,850	—
Interest expense	5,223	2,479	—
Income before income taxes	1,822	75,371	—

For the year ended February 28, 2017

Sale of Los Angeles Magazine, Atlanta Magazine, Cincinnati Magazine and Orange Coast Magazine

On February 28, 2017, Emmis closed on its sale of substantially all of the assets of *Los Angeles Magazine*, *Atlanta Magazine*, *Cincinnati Magazine* and *Orange Coast Magazine* (the “Hour Magazines”) for gross proceeds of \$6.5 million to Hour Media Group, LLC. The Company previously announced that it was exploring strategic alternatives for its publishing division, excluding *Indianapolis Monthly*. Emmis decided to sell most of its publishing assets to reduce debt outstanding. Emmis received net proceeds of \$2.9 million, consisting of the stated purchase price of \$6.5 million, less \$0.7 million held in escrow and disposition costs totaling \$2.9 million. The \$2.9 million of disposition costs primarily relate to \$1.6 million of employee-related costs, including severance, and transaction advisory fees of \$1.0 million. The funds held in escrow secured Emmis’ post-closing indemnification obligations in the purchase agreement and were scheduled to be released six months after the closing of the transaction. The release of these funds from escrow was subsequently litigated. 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, respectively. The Company recognized a loss of \$0.2 million related to this settlement during the year ended February 28, 2019, which is included in (gain) loss on sales of assets, net of disposition costs in the accompanying consolidated financial statements. After settling retention bonuses to affected employees, substantially all of the net proceeds were used to repay term loan indebtedness under Emmis’ senior credit facility. Emmis recorded a \$2.7 million gain on the sale of the Hour Magazines. The Hour Magazines had historically been included in our Publishing 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. The following table summarizes certain operating results of the Hour Magazines 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 Hour Magazines is included in the magazines’ results below.

	For the year ended February 28,		
	2017	2018	2019
Net revenues	\$ 29,112	\$ —	\$ —
Station operating expenses, excluding depreciation and amortization expense	31,076	172	35
Depreciation and amortization	122	—	—
(Gain) loss on sale of publishing assets, net of disposition costs	(2,677)	141	331
Operating income (loss)	591	(313)	(366)
Interest expense	179	—	—
Income (loss) before income taxes	412	(313)	(366)

Sale of Terre Haute, Indiana radio stations

On January 30, 2017, Emmis closed on its sale of substantially all of the assets of its radio stations in Terre Haute, Indiana, in two contemporaneous transactions. In one transaction, Emmis sold the assets of WTHI-FM and the intellectual property of WWVR-FM to Midwest Communications, Inc. In the other transaction, Emmis sold the assets of WFNF-AM, WFNB-FM, WWVR-FM (other than the intellectual property for that station) and an FM translator to DLC Media, Inc. The Company previously announced that it was exploring strategic alternatives for these radio stations. Emmis believed that operating stations in Terre Haute, Indiana was not a core part of its radio strategy and its strong market position in the Terre Haute market would be attractive to potential buyers. At closing, Emmis received gross proceeds of approximately \$5.2 million for both transactions. After payment of brokerage and other transaction costs, net proceeds totaled \$4.8 million and were used to repay term loan indebtedness under Emmis’ senior credit facility. Emmis recorded a \$3.5 million gain on the sale of its Terre Haute radio stations. The Terre Haute 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. The following table summarizes certain operating results of our Terre Haute 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 Terre Haute radio stations is included in the stations’ results below.

	For the year ended February 28,		
	2017	2018	2019
Net revenues	\$ 2,298	\$ (6)	\$ —
Station operating expenses, excluding depreciation and amortization expense	2,258	24	—
Depreciation and amortization	117	—	—
Impairment loss	79	—	—
Gain on sale of radio assets, net of disposition costs	(3,478)	—	—
Operating income (loss)	3,322	(30)	—
Interest expense	307	—	—
Income (loss) before income taxes	3,015	(30)	—

Sale of Texas Monthly

On November 1, 2016, Emmis closed on its sale of *Texas Monthly* for gross proceeds of \$25.0 million in cash to a subsidiary of Genesis Park, LP. The Company previously announced that it was exploring strategic alternatives for its publishing division, excluding *Indianapolis Monthly*. Emmis believed that its publishing portfolio had significant brand value and planned to use proceeds from the sale of its publishing properties to repay debt. Emmis received net proceeds of \$23.4 million, consisting of the stated purchase price of \$25.0 million, net of estimated purchase price adjustments totaling \$0.7 million and disposition costs totaling \$0.9 million. The \$0.9 million of disposition costs primarily related to severance costs. Proceeds were used to repay term and revolving loan indebtedness under Emmis' senior credit facility. Emmis recorded a \$17.4 million gain on the sale of *Texas Monthly*. *Texas Monthly* had historically been included in our Publishing 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. The following table summarizes certain operating results of *Texas Monthly* 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 *Texas Monthly* is included in the magazine's results below.

	For the year ended February 28,		
	2017	2018	2019
Net revenues	\$ 14,685	\$ (2)	\$ —
Station operating expenses, excluding depreciation and amortization expense	14,465	(78)	—
Depreciation and amortization	84	—	—
Gain on sale of publishing assets, net of disposition costs	(17,402)	—	—
Operating income	17,538	76	—
Interest expense	1,067	—	—
Other income	(37)	—	—
Income before income taxes	16,508	76	—

Unaudited pro forma summary information is presented below for the years ended February 28, 2018 and 2019, assuming the dispositions discussed above and related mandatory debt repayments had occurred on the first day of the pro forma periods presented below.

	For the year ended February 28,	
	2018 (unaudited)	2019 (unaudited)
Net revenues	\$ 116,438	\$ 113,420
Station operating expenses, excluding depreciation and amortization	92,918	90,493
Consolidated net income	2,540	1,255
Net loss attributable to the Company	(90)	(1,472)
Net income per share - basic	\$ (0.01)	\$ (0.12)
Net income per share - diluted	\$ (0.01)	\$ (0.12)

8. OTHER SIGNIFICANT TRANSACTIONS

Going private offer

On August 18, 2016, the Board of Directors of the Company received a letter from E Acquisition Corporation ("EAC"), an Indiana corporation owned by Jeffrey H. Smulyan, the Company's Chairman of the Board, Chief Executive Officer and controlling shareholder, setting forth a non-binding proposal by which E Acquisition Corporation (the "Proposing Person"), would acquire all the outstanding shares of Class A Common Stock of the Company that were not owned by the Proposing Person at a cash purchase price of \$4.10 per share (the "Proposal"). The Proposal contemplated that, following the closing of the proposed transaction, the Company's shares would no longer be registered with the Securities and Exchange Commission and the Company would no longer be a reporting company or have any public shares traded on Nasdaq.

The Company's Board of Directors formed a special committee of independent and disinterested directors (the "Special Committee") to review and evaluate the Proposal. The members of the Special Committee were Susan Bayh and Peter Lund. On October 14, 2016, EAC delivered to the Special Committee a letter (the "Proposal Expiration Letter") confirming that the offer had expired on October 14, 2016 and had not been extended.

The Special Committee engaged independent legal counsel and independent financial advisors to assist the Special Committee in the evaluation of the Proposal. During the year ended February 28, 2017, the Company incurred \$0.9 million of costs associated with the Proposal, which are included in corporate expenses, excluding depreciation and amortization expense in the accompanying consolidated statements of operations. No further costs are expected to be incurred in connection with the going private offer as it has expired.

Next Radio LLC - Sprint Agreement

On August 9, 2013, NextRadio LLC, a wholly-owned subsidiary of Emmis, entered into an agreement with Sprint whereby Sprint agreed to pre-load the Company's smartphone application, NextRadio, on a minimum of 30 million FM-enabled wireless devices on the Sprint wireless network over a three -year period. In return, NextRadio LLC agreed to serve as a conduit for the radio industry to pay Sprint \$15 million per year in equal quarterly installments over the three year term and to share with Sprint certain revenue generated by the NextRadio application. Emmis did not guarantee NextRadio LLC's performance under this agreement and Sprint did not have recourse to any Emmis related entity other than NextRadio LLC. Additionally, the agreement did not limit the ability of NextRadio LLC to place the NextRadio application on FM-enabled devices on other wireless networks. Through February 28, 2019, the NextRadio application had not generated a material amount of revenue.

Nearly all of the largest radio broadcasters and many smaller radio broadcasters expressed support for NextRadio LLC's agreement with Sprint. Accordingly, NextRadio LLC entered into a number of funding agreements with radio broadcasters and other participants in the radio industry to collect and remit cash to Sprint to fulfill the quarterly payment obligation. As part of some of these funding agreements, Emmis agreed to certain limitations on the operation of its NextRadio and TagStation businesses, including assurances of access to the NextRadio app and to TagStation (the cloud-based engine that provides data to the NextRadio application), and limitations on the sale of the businesses to potential competitors of the U.S. radio industry. Emmis also granted the U.S. radio industry (as defined in the funding agreements) a call option on substantially all of the assets used in the NextRadio and TagStation businesses in the United States. The call option may be exercised in August 2019 by paying Emmis a purchase price equal to the greater of (i) the appraised fair market value of the NextRadio and TagStation businesses, or (ii) two times Emmis' cumulative investments in the development of the businesses through August 2015. If the call option is exercised, the businesses will continue to be subject to the operating limitations applicable today, and no radio operator will be permitted to own more than 30% of the NextRadio and TagStation businesses.

From the inception of NextRadio LLC's agreement with Sprint through December 7, 2016, NextRadio LLC had remitted to Sprint approximately \$33.2 million. Effective December 8, 2016, NextRadio LLC and Sprint entered into an amendment of their original agreement. The amendment called for NextRadio LLC to make installment payments totaling \$6.0 million through March 15, 2017, which have been paid. In exchange, Sprint agreed to forgive the remaining \$5.8 million that it was due under the original agreement, and in return receive a higher share of certain revenue generated by the NextRadio application. NextRadio LLC received a loan of \$4.0 million for the sole purpose of fulfilling the payment obligations to Sprint under the amendment. The loan was structured to be repaid out of proceeds from sales of enhanced advertising through the NextRadio application. See Note 5 for more discussion of this loan.

Emmis determined that NextRadio LLC is a variable interest entity (VIE) and that Emmis is the primary beneficiary because the Company has the power to direct substantially all of the activities of NextRadio LLC, and because the Company may absorb certain losses and receive certain benefits from the operations of the VIE. Emmis did not record any revenue or expense related to the amounts that were collected and remitted to Sprint except the portion of any payment to Sprint that was actually contributed to NextRadio LLC by Emmis (or the amounts funded by NextRadio LLC via the loan discussed above). Emmis contributed approximately \$0.3 million to NextRadio LLC during the year ended February 28, 2018, and recorded its contributions as station operating expenses, excluding depreciation and amortization expense. Emmis did not fund any of NextRadio LLC's payments to Sprint during the year ended February 28, 2017 and as discussed above, all monetary obligations to Sprint were satisfied during the year ended February 28, 2018.

As of February 28, 2018 and 2019, the carrying value of NextRadio LLC's assets were less than \$0.1 million and zero, respectively. As of February 28, 2018 and 2019, liabilities totaled \$4.2 million and \$4.4 million, respectively, and consisted solely of NextRadio LLC's nonrecourse debt and related accrued interest as previously discussed.

LMA of 98.7FM in New York, NY and Related Financing Transaction

On April 26, 2012 Emmis entered into an LMA with a subsidiary of Disney Enterprises, Inc., pursuant to which the Disney subsidiary purchased the right to provide programming for 98.7FM in New York, NY until August 24, 2024. Emmis retains ownership and control of 98.7FM, including the related FCC license during the term of the LMA and receives an annual fee from the Disney subsidiary. The fee, initially \$8.4 million annually, increases by 3.5% annually until the LMA's termination.

As discussed in Note 5, Emmis, through newly-created subsidiaries, issued \$82.2 million of notes, which are nonrecourse to the rest of the Company's subsidiaries and are secured by the assets of the newly-created subsidiaries including the payments made in connection with the 98.7FM LMA. See Notes 1 and 5 for more discussion of the LMA payments and nonrecourse debt.

The following table summarizes Emmis' operating results of 98.7FM for all periods presented. Emmis programmed 98.7FM until the LMA commenced on April 26, 2012. 98.7FM is a part of our Radio segment. Results of operations of 98.7FM for the years ended February 2017, 2018 and 2019 were as follows:

	For the year ended February 28,		
	2017	2018	2019
Net revenues	\$ 10,331	\$ 10,331	\$ 10,331
Station operating expenses, excluding depreciation and amortization expense	1,275	1,169	1,198
Impairment loss on intangible assets (Note 9)	2,907	—	—
Depreciation and amortization	21	21	20
Interest expense	2,827	2,591	2,331

Assets and liabilities of 98.7FM as of February 28, 2018 and 2019 were as follows:

	As of February 28,	
	2018	2019
Current assets:		
Restricted cash	\$ 1,358	\$ 1,504
Prepaid expenses	448	394
Other	31	340
Total current assets	1,837	2,238
Noncurrent assets:		
Property and equipment	208	188
Indefinite lived intangibles	46,390	46,390
Deposits and other	6,543	6,255
Total noncurrent assets	53,141	52,833
Total assets	\$ 54,978	\$ 55,071
Current liabilities:		
Accounts payable and accrued expenses	\$ 18	\$ 15
Current maturities of long-term debt	6,587	7,150
Deferred revenue	835	864
Other current liabilities	184	162
Total current liabilities	7,624	8,191
Noncurrent liabilities:		
Long-term debt, net of current portion	45,632	38,747
Total noncurrent liabilities	45,632	38,747
Total liabilities	\$ 53,256	\$ 46,938

9. INTANGIBLE ASSETS AND GOODWILL

In accordance with ASC Topic 350, *Intangibles—Goodwill and Other*, the Company reviews goodwill and other intangibles at least annually for impairment. In connection with any such review, if the recorded value of goodwill and other intangibles is greater than its fair value, the intangibles are written down and charged to results of operations. FCC licenses are renewed every eight years at a nominal cost, and historically all of our FCC licenses have been renewed at the end of their respective eight-year periods. Since we expect that all of our FCC licenses will continue to be renewed in the future, we believe they have indefinite lives. Radio stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under a Local Marketing Agreement by another broadcaster.

Impairment testing

The Company generally performs its annual impairment review of indefinite-lived intangibles as of December 1 each year. At the time of each impairment review, if the fair value of the indefinite-lived intangible is less than its carrying value a charge is recorded to results of operations. When indicators of impairment are present, the Company will perform an interim impairment test. Impairment recorded as a result of our interim and annual impairment testing is summarized in the table below. We will perform additional interim impairment assessments whenever triggering events suggest such testing for the recoverability of these assets is warranted. The table below summarizes the results of our interim and annual impairment testing for the three years ending February 28, 2019.

	Interim Assessment		Annual Assessment		Total
	Goodwill	Definite-lived	FCC Licenses	Goodwill	
Year Ended February 28, 2017	2,058	930	6,855	—	9,843
Year Ended February 28, 2018	—	—	—	265	265
Year Ended February 28, 2019	—	—	343	—	343

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 into consideration then current economic conditions.

Below are some of the key assumptions used in our annual impairment assessments. As part of our recent annual impairment assessments, we reduced long-term growth rates in most of the markets in which we operate based on recent industry trends and our expectations for the markets going forward. The methodology used to value our FCC licenses has not changed in the three-year period ended February 28, 2019.

	December 1, 2016	December 1, 2017	December 1, 2018
Discount Rate	12.2% - 12.5%	12.1% - 12.4%	11.9% - 12.3%
Long-term Revenue Growth Rate	1.0% - 2.0%	1.0% - 1.8%	0.3% - 1.0%
Mature Market Share	3.1% - 30.4%	12.7% - 31.1%	12.9% - 30.2%
Operating Profit Margin	25.1% - 39.1%	27.0% - 39.1%	26.0% - 38.0%

As of February 28, 2018 and 2019, excluding amounts classified as held for sale, the carrying amounts of the Company's FCC licenses were \$170.9 million and \$170.5 million, respectively. These amounts are entirely attributable to our radio division. The table below presents the changes to the carrying values of the Company's FCC licenses for the years ended February 2018 and 2019 for each unit of accounting.

Unit of Accounting	Change in FCC License Carrying Values						
	As of February 28, 2017	Sale of Stations	Reclassification	As of February 28, 2018	Sale of Stations	Impairment	As of February 28, 2019
New York Cluster	\$ 71,614	\$ —	\$ —	\$ 71,614	\$ —	\$ —	\$ 71,614
98.7FM (New York)	46,390	—	—	46,390	—	—	46,390
Austin Cluster	34,720	—	—	34,720	—	—	34,720
St. Louis Cluster	24,758	—	(24,758)	—	—	—	—
Indianapolis Cluster	18,166	—	—	18,166	—	(343)	17,823
KPWR-FM (Los Angeles)	2,018	(2,018)	—	—	—	—	—
Subtotal	197,666	(2,018)	(24,758)	170,890	—	(343)	170,547
<i>Assets held for sale</i>							
St. Louis Cluster	—	—	24,758	24,758	(24,758)	—	—
Grand Total	\$ 197,666	\$ (2,018)	\$ —	\$ 195,648	\$ (24,758)	\$ (343)	\$ 170,547

Impairment was recorded for our Indianapolis radio cluster in connection with our most recent annual impairment review. Stagnant market revenues in recent years, coupled with a reduction in the Company's estimate of long-term revenue growth rates, led to a lower estimate of fair value for these FCC licenses.

During the three years ended February 2019, we sold our stations in Terre Haute, Los Angeles and St. Louis. See Note 7 for more discussion of these transactions.

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 uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units (radio stations grouped by market, excluding any stations that are being operated pursuant to an LMA). 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 well as recent market transactions as a benchmark for the multiple it applies to its radio reporting units. For the annual assessment performed as of December 1, 2018, the Company applied a market multiple of 8.0 times the reporting unit's operating performance. 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 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.

The Company adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment as of March 1, 2017. Prior to March 1, 2017, the Company performed a two-step impairment test for goodwill. Goodwill impairment recorded during the year ended February 28, 2017 was recorded using the two-step methodology. Goodwill impairments recorded from March 1, 2017 forward will be recorded using the simplified method as described above.

The Company used an income approach to determine the enterprise value of Digonex. Digonex is a dynamic pricing business that does not have well-established industry trading multiples, analyst estimates of valuations, or recently completed transactions that would indicate fair values of these businesses. As such, the Company used a discounted cash flow method to determine the fair value of Digonex.

During the quarter ended August 31, 2016, the Company lowered its growth expectations for Digonex for the next several years due to slow client adoption of dynamic pricing services. The Company's discounted cash flow analysis for Digonex indicated a nominal enterprise value. Therefore, in connection with the interim impairment test, Emmis determined that Digonex's goodwill was fully impaired and recorded an impairment loss of \$2.1 million. Subsequent to our impairment of Digonex goodwill and the sale of *Texas Monthly* (see note 7 for more discussion), the Company's goodwill relates entirely to its Radio segment.

During our December 2017 annual goodwill impairment test, the Company wrote off \$0.3 million of goodwill associated with our Indianapolis radio cluster. Weak ratings and declining market revenues significantly impacted our operating performance in Indianapolis. This resulted in the carrying value of our Indianapolis radio cluster exceeding its estimated fair value by more than the amount of goodwill we had recorded for the cluster on the assessment date. As such, the Company fully impaired the goodwill of this cluster.

As of February 28, 2018 and 2019, the carrying amount of the Company's goodwill was \$4.3 million. The table below presents the changes to the carrying values of the Company's goodwill for the years ended February 2018 and 2019 for each reporting unit. A reporting unit is a cluster of radio stations in one geographical market (except for stations being operated pursuant to LMAs) and each magazine on an individual basis.

Reporting Unit (Segment)	Change in Goodwill Carrying Values				
	As of February 28, 2017	Impairment	As of February 28, 2018	Impairment	As of February 28, 2019
Indianapolis Cluster (Radio)	\$ 265	\$ (265)	\$ —	\$ —	\$ —
Austin Cluster (Radio)	4,338	—	4,338	—	4,338
Total	\$ 4,603	\$ (265)	\$ 4,338	\$ —	\$ 4,338

Definite-lived intangibles

The following table presents the weighted-average remaining useful life at February 28, 2019 and gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at February 28, 2018 and 2019:

	Weighted Average Remaining Useful Life (in years)	As of February 28, 2018			As of February 28, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Programming Contract	2.6	\$ 2,154	\$ 1,101	\$ 1,053	\$ 2,154	\$ 1,396	\$ 758

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. As discussed above, performance below the Company's expectations, coupled with a downward revision of long-term forecasts for Digonex, led the Company to measure impairment for Digonex's definite-lived intangibles during the quarter ended August 31, 2016. The Company determined that the patents, customer list and trademarks of Digonex were fully impaired and recorded an impairment loss of \$0.9 million.

Total amortization expense from definite-lived intangibles was \$0.7 million, \$0.3 million and \$0.3 million for the years ended February 2017, 2018 and 2019, respectively. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles:

Year ended February 28 (29),	Expected Amortization Expense (in 000's)
2020	\$ 294
2021	294
2022	170
2023	—
2024	—

10. EMPLOYEE BENEFIT PLANS

a. Equity Incentive Plans

The Company has stock options and restricted stock grants outstanding that were issued to employees or non-employee directors under one or more of the following plans: the 2004 Equity Compensation Plan, the 2010 Equity Compensation Plan, the 2012 Equity Compensation Plan, the 2015 Equity Compensation Plan, the 2016 Equity Compensation Plan and the 2017 Equity Compensation Plan. These outstanding grants continue to be governed by the terms of the applicable plan.

2017 Equity Compensation Plan

At the 2017 annual meeting, the shareholders approved the 2017 Equity Compensation Plan (the “2017 Plan”). Under the 2017 Plan, awards equivalent to 2.0 million shares of common stock may be granted. Furthermore, any unissued awards from prior equity compensation plans (or shares subject to outstanding awards that would again become available for awards under this plan) increases the number of shares of common stock available for grant under the 2017 Plan. The awards, which have certain restrictions, may be for incentive stock options, nonqualified stock options, shares of restricted stock, restricted stock units, stock appreciation rights or performance units. Under the 2017 Plan, all awards are granted with a purchase price equal to at least the fair market value of the stock except for shares of restricted stock and restricted stock units, which may be granted with any purchase price (including zero). The stock options under the 2017 Plan generally expire not more than 10 years from the date of grant. Under the 2017 Plan, awards equivalent to approximately 1.7 million shares of common stock were available for grant as of February 28, 2019.

b. 401(k) Retirement Savings Plan

Emmis sponsors a Section 401(k) retirement savings plan that is available to substantially all employees age 18 years and older who have at least 30 days of service. Employees may make pretax contributions to the plan up to 50% of their compensation, not to exceed the annual limit prescribed by the Internal Revenue Service (“IRS”). Although Emmis may make discretionary matching contributions to the plan in the form of cash or shares of the Company’s Class A common stock, none were made during the three years ended February 28, 2019.

c. Defined Contribution Health and Retirement Plan

Emmis contributes to a multi-employer defined contribution health and retirement plan for employees who are members of a certain labor union. Amounts charged to expense related to the multi-employer plan were approximately \$0.3 million for each of the years ended February 2017, 2018 and 2019.

11. OTHER COMMITMENTS AND CONTINGENCIES

a. Commitments

The Company has various commitments under the following types of material contracts: (i) operating leases; (ii) employment agreements and (iii) other contracts with annual commitments (mostly contractual services for audience measurement information) at February 28, 2019 as follows:

<u>Year ending February 28 (29),</u>	<u>Operating Leases</u>	<u>Employment Agreements</u>	<u>Other Contracts</u>	<u>Total</u>
2020	\$ 5,547	\$ 10,062	\$ 3,955	\$ 19,564
2021	5,305	3,009	763	9,077
2022	5,284	1,223	526	7,033
2023	5,186	123	—	5,309
2024	3,666	123	—	3,789
Thereafter	13,118	—	—	13,118
Total	\$ 38,106	\$ 14,540	\$ 5,244	\$ 57,890

Emmis leases certain office space, tower space, equipment and automobiles under operating leases expiring at various dates through March 2032. Some of the lease agreements contain renewal options and annual rental escalation clauses, as well as provisions for payment of utilities and maintenance costs. The Company recognizes escalated rents on a straight-line basis over the term of the lease agreement. Rental expense during the years ended February 2017, 2018 and 2019 was approximately \$8.3 million, \$6.0 million and \$5.0 million, respectively. The Company recognized approximately \$0.3 million, less than \$0.1 million and \$0.2 million of sublease income as a reduction of rent expense for the years ended February 2017, 2018, and 2019 respectively.

The total minimum sublease rentals to be received in the future under noncancelable subleases as of February 28, 2019 were as follows:

<u>Year ending February 28 (29),</u>	<u>Noncancelable Sublease rentals</u>
2020	\$ 441
2021	276
2022	129
2023	126
2024	88
Total	\$ 1,060

b. Litigation

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

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. The United States Court of Appeals for the Seventh Circuit is scheduled to hear oral arguments by both parties on May 30, 2019. Accordingly, Emmis cannot estimate the amount or timing of a recovery, if any.

12. INCOME TAXES

The provision (benefit) for income taxes for the years ended February 2017, 2018 and 2019 consisted of the following:

	For the year ended February 28,		
	2017	2018	2019
Current:			
Federal	\$ —	\$ (1,209)	\$ 10,274
State	68	1,611	2,064
Total current	68	402	12,338
Deferred:			
Federal	(152)	(13,612)	(4,033)
State	(26)	1,478	(2,138)
Total deferred	(178)	(12,134)	(6,171)
(Benefit) provision for income taxes	\$ (110)	\$ (11,732)	\$ 6,167

The provision (benefit) for income taxes for the years ended February 2017, 2018 and 2019 differs from that computed at the Federal statutory corporate tax rate as follows:

	For the year ended February 28,		
	2017	2018	2019
Federal statutory income tax rate	35%	35%	21%
Computed income tax provision at federal statutory rate	\$ 4,588	\$ 23,855	\$ 6,772
State income tax	42	3,089	(74)
Nondeductible stock compensation	444	261	63
Entertainment disallowance	366	235	215
Disposal of goodwill with no tax basis	3,533	—	—
Change in federal valuation allowance	(7,387)	(20,373)	599
Tax attributed to noncontrolling interest	(1,698)	(1,785)	(1,045)
Federal tax credit	(171)	(85)	(85)
Federal tax reform	—	(15,546)	—
Reclassification of AMT credit	—	(2,162)	82
Other	173	779	(360)
(Benefit) provision for income taxes	\$ (110)	\$ (11,732)	\$ 6,167

The final determination of our income tax liability may be materially different from our income tax provision. Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities. As of February 28, 2019, the Company had no open income tax examinations. The Company’s tax years ended February 28, 2016 through 2019 remain subject to federal income tax examination. For state and local jurisdictions, the tax years February 28, 2015 through 2019 remain subject to income tax examination. To the extent that net operating losses are utilized, the year of loss is open to examination.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into federal law. The provisions of this major tax reform were generally effective January 1, 2018. The most significant change impacting the Company is the reduction of the corporate federal income tax rate from 35% to 21% effective January 1, 2018. The Company made reasonable estimates in order to remeasure its deferred tax balances and account for the effects of the Tax Act, as reflected in the February 28, 2018 financial statements. The adjustment to federal deferred tax balances resulted in a benefit of \$15.5 million and the adjustment to state deferred tax balances resulted in an expense of \$1.4 million. As of February 28, 2019, Emmis completed the accounting for enactment date income tax effects of the Tax Act, which resulted in an immaterial impact to our financial statements.

The components of deferred tax assets and deferred tax liabilities at February 28, 2018 and 2019 were as follows:

	As of February 28,	
	2018	2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 10,977	\$ 11,173
Intangible assets	14,072	13,023
Compensation relating to stock options	1,600	1,506
Accrued rent	1,204	974
Tax credits	1,464	1,165
Investments in subsidiaries	143	148
Other	332	298
Valuation allowance	(27,099)	(26,724)
Total deferred tax assets	2,693	1,563
Deferred tax liabilities		
Indefinite-lived intangible assets	(31,383)	(26,005)
Property and equipment	(483)	(698)
Cancellation of debt income	(1,839)	—
Other	(391)	(92)
Total deferred tax liabilities	(34,096)	(26,795)
Net deferred tax liabilities	\$ (31,403)	\$ (25,232)

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset (“DTA”) will not be realized. The Company historically recorded a full valuation allowance on all U.S. (federal and state) deferred tax assets. The Company does not benefit its deferred tax assets based on the deferred tax liabilities (“DTLs”) related to indefinite-lived intangibles that are not expected to reverse during the carry-forward period. Because these DTLs would not reverse until some future indefinite period when the intangibles are either sold or impaired, any resulting temporary differences cannot be considered a source of future taxable income to support realization of the DTAs.

The Company decreased its valuation allowance by \$0.4 million (consisting of a \$0.7 million federal increase and a \$ 1.1 million state decrease), from \$27.1 million as of February 28, 2018, to \$26.7 million as of February 28, 2019.

The Company has considered future taxable income and ongoing prudent and feasible tax-planning strategies in assessing the need for the valuation allowance. The Company will assess quarterly whether it remains more likely than not that the deferred tax assets will not be realized. In the event the Company determines at a future time that it could realize its deferred tax assets in excess of the net amount recorded, the Company will reduce its deferred tax asset valuation allowance and decrease income tax expense in the period when the Company makes such determination.

The Company has federal net operating losses (“NOLs”) of \$20 million and state NOLs of \$135 million available to offset future taxable income. The federal net operating loss carryforwards begin expiring in 2031, and the state net operating loss carryforwards expire between the years ending February 2020 and February 2037. A valuation allowance has been provided for the net operating loss carryforwards related to states in which the Company no longer has operating results as it is more likely than not that substantially all of these net operating losses will expire unutilized.

The activities of Digonex, which is a C Corporation, are consolidated for financial statement purposes, but are not included in the U.S. consolidated income tax return of Emmis. As of February 28, 2019, Digonex has federal NOLs of \$49 million and state NOLs of \$49 million. If Digonex produces pretax income in the future, it is possible that the utilization of these NOL carryforwards will be limited due to Section 382 of the Internal Revenue Code. The Company is in the process of completing a Section 382 study to determine the applicable limitation, if any. As of February 28, 2019, the Company was able to determine that at least \$20 million of federal NOLs and \$20 million of state NOLs will be fully available to offset future taxable income. These amounts are included in the above consolidated federal and state NOL totals of \$20 million and \$135 million, respectively.

The Company had \$1.5 million of tax credits at February 28, 2019, including tax credits in California and Illinois, which have a full valuation allowance, and in Texas, which is expected to be fully utilized in future years.

Accounting Standards Codification paragraph 740-10 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken within a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest benefit that is greater than 50 percent likely of being realized upon ultimate settlement. As of February 28, 2019, the estimated value of the Company’s net uncertain tax positions is approximately \$0.1 million, most of which is included in other noncurrent liabilities, as the Company does not expect to settle the items within the next 12 months.

The following is a tabular reconciliation of the total amounts of gross unrecognized tax benefits for the years ending February 28, 2018 and February 28, 2019:

	For the year ending February 28,	
	2018	2019
Gross unrecognized tax benefit – opening balance	\$ (60)	\$ (38)
Gross decreases – lapse of applicable statute of limitations	22	16
Gross unrecognized tax benefit – ending balance	\$ (38)	\$ (22)

Included in the balance of unrecognized tax benefits are tax benefits that, if recognized, would reduce the Company's provision for income taxes by less than \$0.1 million as of February 28, 2018 and February 28, 2019. Due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of audits may result in liabilities that could be different from this estimate. In such case, the Company will record additional tax expense or tax benefit in the tax provision, or reclassify amounts on the accompanying consolidated balance sheets in the period in which such matter is effectively settled with the taxing authority.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the uncertain tax benefits noted above, the Company accrued an immaterial amount of interest during the year ending February 28, 2019 and in total, as of February 28, 2019, has recognized a liability for interest of \$4 thousand.

13. 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, although our TagStation and Next Radio businesses were dramatically scaled-down during our year ended February 28, 2019.

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. Our radio operations in New York, including the LMA fee we receive from a subsidiary of Disney, accounted for approximately 50% of our radio revenues for the year ended February 28, 2019. The Company's segments operate exclusively in the United States.

During the three years ended February 28, 2019, we sold our radio clusters in Terre Haute and St. Louis, sold our radio station in Los Angeles and sold five of our six magazines. See Note 7 for more discussion of our dispositions.

The accounting policies as described in the summary of significant accounting policies included in Note 1 to these consolidated financial statements, are applied consistently across segments.

	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Year Ended February 28, 2019				
Net revenues	\$ 108,018	\$ 4,678	\$ 1,435	\$ 114,131
Station operating expenses excluding depreciation and amortization expense	76,128	4,822	10,083	91,033
Corporate expenses excluding depreciation and amortization expense	—	—	10,313	10,313
Impairment loss	343	—	—	343
Depreciation and amortization	2,338	18	857	3,213
(Gain) loss on sale of radio and publishing assets, net of disposition costs	(32,148)	331	—	(31,817)
Loss on disposal of fixed assets	57	—	—	57
Operating income (loss)	\$ 61,300	\$ (493)	\$ (19,818)	\$ 40,989

	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Year Ended February 28, 2018				
Net revenues	\$ 142,852	\$ 4,521	\$ 1,114	\$ 148,487
Station operating expenses excluding depreciation and amortization expense	102,413	5,035	12,310	119,758
Corporate expenses excluding depreciation and amortization expense	—	—	10,712	10,712
Impairment loss	265	—	—	265
Depreciation and amortization	2,792	19	817	3,628
(Gain) loss on sale of radio and publishing assets, net of disposition costs	(76,745)	141	—	(76,604)
(Gain) loss on sale of fixed assets	(82)	13	—	(69)
Operating income (loss)	\$ 114,209	\$ (687)	\$ (22,725)	\$ 90,797

Year Ended February 28, 2017	Radio	Publishing	Corporate & Emerging Technologies	Consolidated
Net revenues	\$ 165,148	\$ 48,559	\$ 861	\$ 214,568
Station operating expenses excluding depreciation and amortization expense	115,366	51,063	13,656	180,085
Corporate expenses excluding depreciation and amortization expense	—	—	11,359	11,359
Impairment loss	6,855	—	2,988	9,843
Depreciation and amortization	3,462	230	1,114	4,806
Gain on sale of radio and publishing assets, net of disposition costs	(3,478)	(20,079)	—	(23,557)
Loss on sale of fixed assets	124	—	—	124
Operating income (loss)	<u>\$ 42,819</u>	<u>\$ 17,345</u>	<u>\$ (28,256)</u>	<u>\$ 31,908</u>
			Corporate & Emerging Technologies	
Total Assets	Radio	Publishing	Consolidated	
As of February 28, 2018	\$ 249,044	\$ 1,293	\$ 20,807	\$ 271,144
As of February 28, 2019	216,473	728	20,545	237,746

14. OTHER (EXPENSE) INCOME, NET

Components of other (expense) income, net for the three years ended February 2017, 2018 and 2019 were as follows:

	For the year ended February 28,		
	2017	2018	2019
Loss from unconsolidated affiliate, including other-than-temporary impairment losses	\$ (28)	\$ (15)	\$ —
Other-than-temporary impairment loss on investments	(254)	—	—
Interest income	38	60	132
Other	84	(10)	7
Total other (expense) income, net	<u>\$ (160)</u>	<u>\$ 35</u>	<u>\$ 139</u>

See Note 1 for further discussion of the other-than-temporary impairment loss on investments recorded during the year ended February 28, 2017.

15. RELATED PARTY TRANSACTIONS

Prior to 2002, the Company made certain life insurance premium payments for the benefit of Mr. Smulyan. The Company discontinued making such payments in 2001; however, pursuant to a Split Dollar Life Insurance Agreement and Limited Collateral Assignment dated November 2, 1997, the Company retains the right, upon Mr. Smulyan's death, resignation or termination of employment, to recover all of the premium payments it has made, which total \$1.1 million.

As previously discussed in Note 8, the Company received an offer in August 2016 from EAC, an Indiana corporation owned by Jeffrey H. Smulyan, the Company's Chairman of the Board, Chief Executive Officer and controlling shareholder, setting forth a non-binding proposal by which EAC would acquire all the outstanding shares of Class A common stock of the Company. During the year ended February 28, 2017, the Company incurred \$0.9 of costs associated with the offer, which are included in corporate expenses, excluding depreciation and amortization expense in the accompanying consolidated statements of operations. The going private offer expired on October 14, 2016. No further costs are expected to be incurred in connection with the going private offer as it has expired. See Note 8 for further discussion of the going private offer.

16. SUBSEQUENT EVENTS

On April 12, 2019, the Company and certain of its subsidiaries entered into three loan agreements, consisting of:

1. \$12 million revolving credit agreement by and among Wells Fargo Bank, National Association, as lender, the Company, Emmis Operating Company, a wholly owned subsidiary of the Company, and certain other subsidiaries as borrowers (the "Revolving Credit Agreement")
2. \$23 million mortgage by and between Emmis Operating Company and Emmis Indiana Broadcasting, L.P., as borrowers, and Star Financial Bank, as lender (the "Mortgage")
3. \$4 million term loan, by and between Emmis Operating Company, as borrower, and Barrett Investment Partners, LLC, as lender (the "Term Loan")

The Revolving Credit Agreement expires April 12, 2024, provided the Term Loan is repaid, replaced, or extended by October 12, 2021. Amounts borrowed under the Revolving Credit Agreement bear interest at daily three-month LIBOR plus 2.50%. A commitment fee of 0.50% per annum is charged for unused amounts under the Revolving Credit Agreement. Pursuant to a Guaranty and Security Agreement, dated as of April 12, 2019, by and among Wells Fargo Bank, National Association, as lender, the Company, Emmis Operating Company, and certain other subsidiaries as borrowers (the “GSA”), the obligations under the Revolving Credit Agreement are secured by a perfected first priority security interest in certain of the Company’s accounts receivable and fixed assets, as well as security interests in certain other assets of the Company. Borrowing under the Revolving Credit Agreement depends upon continued compliance with certain operating covenants and financial covenants, including maintaining a fixed charge coverage ratio, as specifically defined in the Revolving Credit Agreement, of at least 1.10:1.00. No amounts may be borrowed under the Revolving Credit Agreement unless and until all (i) existing income tax obligations, currently estimated to be approximately \$7 million, are paid in full, or (ii) the borrowing is used to pay such income tax obligations. The operating and other restrictions with which the Company must comply include, among others, restrictions on additional indebtedness, incurrence of liens, engaging in businesses other than our primary business, paying certain dividends, redeeming or repurchasing capital stock, acquisitions and asset sales. No default or event of default has occurred or is continuing.

The Mortgage expires April 12, 2029, and is secured by a perfected first priority security interest in the Company’s headquarters building in Indianapolis, Indiana, and approximately 70 acres of land owned by the Company in Whitestown, Indiana, which currently is used as a tower site for one of the Company’s radio stations. The Mortgage bears interest at 5.48% per annum and requires monthly principal and interest payments using a 25 year amortization period, with a balloon payment due at expiration. The Mortgage requires continued compliance with certain operating covenants and financial covenants, including maintaining a fixed charge coverage ratio, as specifically defined in the Mortgage, of at least 1.10:1.00, and requires certain proceeds from asset sales to be used to repay the Mortgage indebtedness.

The Term Loan expires April 12, 2022, and is secured by a pledge of the Company’s controlling ownership interest in a partnership that owns and operates 6 radio stations in Austin, Texas. The Term Loan bears interest at 10% per annum the first year, with the rate increasing to 12% in the second year and to 14% in the third year. The Term Loan requires monthly principal and interest payments, and is prepayable at par at any time provided that interest of at least \$125 thousand must be paid to the lender.

In connection with the execution of the Revolving Credit Agreement, Mortgage, and Term Loan, the 2014 Credit Agreement was terminated effective April 12, 2019, and all amounts outstanding under that agreement were paid in full.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual 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 February 28, 2019, 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.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f)) that occurred during the fourth quarter of fiscal 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Management’s Report on Internal Control Over Financial Reporting

Emmis Communications Corporation’s management is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, Emmis Communications Corporation’s principal executive and principal financial officers and effected by Emmis Communications Corporation’s board of directors, management and other personnel, 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 and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Emmis Communications Corporation;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Emmis Communications Corporation are being made only in accordance with authorizations of management and directors of Emmis Communications Corporation; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Emmis Communications Corporation’s assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting as of February 28, 2019, based on the control criteria established in a report entitled *Internal Control—Integrated Framework* (2013 Framework), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that Emmis Communications Corporation’s internal control over financial reporting is effective as of February 28, 2019.

Jeffrey H. Smulyan Chairman and Chief Executive Officer

Ryan A. Hornaday Executive Vice President, Chief Financial Officer and Treasurer

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item with respect to directors or nominees to be directors of Emmis is incorporated by reference from the sections entitled “Proposal 1: Election of Directors,” “Corporate Governance – Certain Committees of the Board of Directors,” and “Corporate Governance – Code of Ethics” in the proxy statement for the Annual Meeting of Shareholders expected to be filed within 120 days after the end of the fiscal year to which this report applies. Information about executive officers of Emmis or its affiliates who are not directors or nominees to be directors is presented in Part I under the caption “Information about our Executive Officers.”

ITEM 11.EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference from the sections entitled “Corporate Governance – Compensation of Directors,” and “Executive Compensation” in the proxy statement for the Annual Meeting of Shareholders expected to be filed within 120 days after the end of the fiscal year to which this report applies.

ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information required by this item is incorporated by reference from the section entitled “Security Ownership of Beneficial Owners and Management” in the proxy statement for the Annual Meeting of Shareholders expected to be filed within 120 days after the end of the fiscal year to which this report applies.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under our 2004 Equity Compensation Plan, 2010 Equity Compensation Plan, 2012 Equity Compensation Plan, 2015 Equity Compensation Plan, 2016 Equity Compensation Plan and 2017 Equity Compensation Plan as of February 28, 2019. Our shareholders have approved these plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (B)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)
<i>Class A common stock</i>			
Equity Compensation Plans			
Approved by Security Holders	2,739,916	\$ 4.72	1,731,062
Equity Compensation Plans			
Not Approved by Security Holders	—	—	—
Total	2,739,916	\$ 4.72	1,731,062

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated by reference from the sections entitled “Corporate Governance – Independent Directors” and “Corporate Governance – Transactions with Related Persons” in the proxy statement for the Annual Meeting of Shareholders expected to be filed within 120 days after the end of the fiscal year to which this report applies.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated by reference from the section entitled “Matters Relating to Independent Registered Public Accountants” in the proxy statement for the Annual Meeting of Shareholders expected to be filed within 120 days after the end of the fiscal year to which this report applies.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Financial Statements

The financial statements filed as a part of this report are set forth under Item 8.

Financial Statement Schedules

No financial statement schedules are required to be filed with this report.

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			Filing Date
			Form	Period Ending	Exhibit	
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	Description of Capital Stock	X				
10.01	Form of Option Grant Agreement ++		8-K		10.1	7/13/2017
10.02	Form of Restricted Stock Agreement ++		8-K		10.1	7/13/2017
10.03	Change in Control Severance Agreement, dated as of March 1, 2018, by and between Emmis Operating Company and Jeffrey H. Smulyan ++		8-K		10.10	3/2/2018
10.04	Employment Agreement with Jeffrey H. Smulyan effective as of June 29, 2018 ++		8-K		10.1	7/2/2018
10.05	Change in Control Severance Agreement with Patrick M. Walsh effective March 1, 2019 ++		8-K		10.3	3/6/2019
10.06	Employment Agreement, dated as of August 1, 2017, by and between Emmis Operating Company and Patrick M. Walsh ++		8-K		10.1	8/3/2017
10.07	Employment Agreement, dated as of March 1, 2016 by and between Emmis Operating Company and Paul V. Brenner ++	X				
10.08	Change in Control Severance Agreement with Paul V. Brenner effective March 1, 2016 ++	X				
10.09	Severance Agreement and General Release with Paul V. Brenner dated as of February 28, 2019 ++	X				
10.10	Employment Agreement, dated as of March 1, 2019 by and between Emmis Operating Company and Paul V. Brenner ++	X				
10.11	Employment Agreement, effective as of March 3, 2009, by and between Emmis Operating Company and Gary L. Kaseff ++		10-K/A	2/28/2009	10.31	10/9/2009
10.12	Amendment to Employment Agreement, effective as of March 1, 2013, by and between Emmis Operating Company and Gary L. Kaseff ++		10-K	2/28/2013	10.23	5/8/2013
10.13	Amendment to Employment Agreement, effective as of January 26, 2018, by and between Emmis Operating Company and Gary L. Kaseff ++		10-K	2/28/2018	10.17	5/10/2018
10.14	Emmis Communications Corporation 2017 Equity Compensation Plan ++		DEF 14A			5/26/2017
10.15	Local Programming and Marketing Agreement, dated as of April 26, 2012, between Emmis Radio License Corporation of New York and New York AM Radio, LLC		8-K		10.1	4/26/2012
21	Subsidiaries of Emmis	X				
23	Consent of Independent Registered Public Accounting Firm	X				
24	Powers of Attorney	X				
31.1	Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act	X				

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31.2	<u>Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act</u>	X
32.1	<u>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</u>	X
32.2	<u>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</u>	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

++ Management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY.

None.

Signatures.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMMIS COMMUNICATIONS CORPORATION

Date: May 9, 2019

By: /s/ Jeffrey H. Smulyan
Jeffrey H. Smulyan
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	SIGNATURE	TITLE
Date: May 9, 2019	<u>/s/ Jeffrey H. Smulyan</u> Jeffrey H. Smulyan	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
Date: May 9, 2019	<u>/s/ Patrick M. Walsh</u> Patrick M. Walsh	President, Chief Operating Officer and Director
Date: May 9, 2019	<u>/s/ Ryan A. Hornaday</u> Ryan A. Hornaday	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
Date: May 9, 2019	<u>Susan B. Bayh*</u> Susan B. Bayh	Director
Date: May 9, 2019	<u>James M. Dubin*</u> James M. Dubin	Director
Date: May 9, 2019	<u>Gary L. Kaseff*</u> Gary L. Kaseff	Director
Date: May 9, 2019	<u>Richard A. Leventhal*</u> Richard A. Leventhal	Director
Date: May 9, 2019	<u>Peter A. Lund*</u> Peter A. Lund	Director
Date: May 9, 2019	<u>Greg A. Nathanson*</u> Greg A. Nathanson	Director
Date: May 9, 2019	<u>Lawrence B. Sorrel*</u> Lawrence B. Sorrel	Director

*By: /s/ J. Scott Enright
J. Scott Enright
Attorney-in-Fact