

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2010

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

INDIANA

(State of incorporation or organization)

0-23264

(Commission file number)

35-1542018

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

ONE EMMIS PLAZA  
40 MONUMENT CIRCLE, SUITE 700  
INDIANAPOLIS, INDIANA 46204

(Address of principal executive offices)

(317) 266-0100

(Registrant's Telephone Number,  
Including Area Code)

NOT APPLICABLE

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [] No []

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The number of shares outstanding of each of Emmis Communications Corporation’s classes of common stock, as of January 6, 2011, was:

33,510,830	Shares of Class A Common Stock, \$.01 Par Value
4,772,684	Shares of Class B Common Stock, \$.01 Par Value
0	Shares of Class C Common Stock, \$.01 Par Value

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**PART I – FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2010	2009	2010
NET REVENUES	\$ 64,582	\$ 66,465	\$ 188,587	\$ 193,651
OPERATING EXPENSES:				
Station operating expenses excluding depreciation and amortization expense of \$2,090, \$2,006, \$6,821 and \$6,110, respectively	49,458	49,156	154,627	149,462
Corporate expenses excluding depreciation and amortization expense of \$360, \$307, \$1,197 and \$1,007, respectively	3,567	3,403	10,649	13,278
Restructuring charge	-	-	3,350	-
Impairment loss	-	-	174,642	-
Depreciation and amortization	2,450	2,313	7,956	7,117
(Gain) loss on disposal of assets	9	3	(139)	3
Total operating expenses	<u>55,484</u>	<u>54,875</u>	<u>351,085</u>	<u>169,860</u>
OPERATING INCOME (LOSS)	<u>9,098</u>	<u>11,590</u>	<u>(162,498)</u>	<u>23,791</u>
OTHER INCOME (EXPENSE):				
Interest expense	(7,237)	(5,195)	(18,161)	(16,084)
Gain on debt extinguishment	-	-	31,362	-
Other income (expense), net	27	(132)	302	(238)
Total other income (expense)	<u>(7,210)</u>	<u>(5,327)</u>	<u>13,503</u>	<u>(16,322)</u>
INCOME (LOSS) BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	1,888	6,263	(148,995)	7,469
PROVISION (BENEFIT) FOR INCOME TAXES	<u>(3,390)</u>	<u>4,108</u>	<u>(36,604)</u>	<u>4,426</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	5,278	2,155	(112,391)	3,043
(GAIN) LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	<u>695</u>	<u>95</u>	<u>(578)</u>	<u>392</u>
CONSOLIDATED NET INCOME (LOSS)	4,583	2,060	(111,813)	2,651
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>722</u>	<u>1,288</u>	<u>3,511</u>	<u>3,346</u>
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	3,861	772	(115,324)	(695)
PREFERRED STOCK DIVIDENDS	<u>2,195</u>	<u>2,446</u>	<u>6,584</u>	<u>7,226</u>
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 1,666</u>	<u>\$ (1,674)</u>	<u>\$ (121,908)</u>	<u>\$ (7,921)</u>

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

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

(Unaudited)

(In thousands, except per share data)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2010	2009	2010
Amounts attributable to common shareholders:				
Continuing operations	\$ 1,899	\$ (1,618)	\$ (122,257)	\$ (7,845)
Discontinued operations	(233)	(56)	349	(76)
Net loss attributable to common shareholders	<u>\$ 1,666</u>	<u>\$ (1,674)</u>	<u>\$ (121,908)</u>	<u>\$ (7,921)</u>
Basic net income (loss) per share attributable to common shareholders:				
Continuing operations	\$ 0.05	\$ (0.04)	\$ (3.31)	\$ (0.21)
Discontinued operations, net of tax	-	-	0.01	-
Net income (loss) attributable to common shareholders	<u>\$ 0.05</u>	<u>\$ (0.04)</u>	<u>\$ (3.30)</u>	<u>\$ (0.21)</u>
Basic weighted average common shares outstanding	36,949	37,844	36,942	37,802
Diluted net income (loss) per share attributable to common shareholders:				
Continuing operations	\$ 0.05	\$ (0.04)	\$ (3.31)	\$ (0.21)
Discontinued operations, net of tax	(0.01)	-	0.01	-
Net income (loss) attributable to common shareholders	<u>\$ 0.04</u>	<u>\$ (0.04)</u>	<u>\$ (3.30)</u>	<u>\$ (0.21)</u>
Diluted weighted average common shares outstanding	38,189	37,844	36,942	37,802

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

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

	<u>February 28,</u> 2010	<u>November 30,</u> 2010 (Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 6,814	\$ 12,597
Accounts receivable, net	36,834	43,744
Prepaid expenses	15,248	13,846
Income tax receivable	7,381	7,137
Other current assets	2,234	1,665
Current assets - discontinued operations	<u>6,052</u>	<u>3,181</u>
Total current assets	74,563	82,170
PROPERTY AND EQUIPMENT, NET	50,204	46,103
INTANGIBLE ASSETS (Note 3):		
Indefinite-lived intangibles	335,801	335,801
Goodwill	24,175	24,175
Other intangibles, net	<u>3,833</u>	<u>2,972</u>
Total intangible assets	363,809	362,948
OTHER ASSETS, NET	9,454	8,641
NONCURRENT ASSETS - DISCONTINUED OPERATIONS	138	20
Total assets	<u>\$ 498,168</u>	<u>\$ 499,882</u>

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

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

(In thousands, except share data)

	February 28, 2010	November 30, 2010 (Unaudited)
<b>LIABILITIES AND DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 10,062	\$ 9,090
Current maturities of long-term debt	3,413	3,375
Accrued salaries and commissions	6,475	10,466
Accrued interest	4,513	3,336
Deferred revenue	24,269	17,995
Other current liabilities	5,728	6,465
Current liabilities - discontinued operations	2,381	1,018
Total current liabilities	56,841	51,745
LONG-TERM DEBT, NET OF CURRENT MATURITIES	337,758	341,247
OTHER NONCURRENT LIABILITIES	19,342	14,096
DEFERRED INCOME TAXES	73,305	80,350
Total liabilities	487,246	487,438
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK,</b>		
\$0.01 PAR VALUE; \$50.00 LIQUIDATION PREFERENCE;		
AUTHORIZED 10,000,000 SHARES; ISSUED AND OUTSTANDING		
2,809,170 SHARES AT FEBRUARY 28, 2010 AND NOVEMBER 30, 2010	140,459	140,459
<b>SHAREHOLDERS' DEFICIT:</b>		
Class A common stock, \$.01 par value; authorized 170,000,000 shares;		
issued and outstanding 32,661,550 shares at February 28, 2010		
and 33,121,285 shares at November 30, 2010	327	331
Class B common stock, \$.01 par value; authorized 30,000,000 shares;		
issued and outstanding 4,930,680 shares at February 28, 2010		
and 4,722,684 at November 30, 2010	49	47
Additional paid-in capital	527,120	528,406
Accumulated deficit	(705,135)	(705,830)
Accumulated other comprehensive loss	(1,320)	(792)
Total shareholders' deficit	(178,959)	(177,838)
NONCONTROLLING INTERESTS	49,422	49,823
Total deficit	(129,537)	(128,015)
Total liabilities and deficit	\$ 498,168	\$ 499,882

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

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

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Deficit
	Shares	Amount	Shares	Amount					
BALANCE, FEBRUARY 28, 2010	32,661,550	\$ 327	4,930,680	\$ 49	\$ 527,120	\$ (705,135)	\$ (1,320)	\$ 49,422	\$ (129,537)
Issuance of Common Stock to employees and officers and related income tax benefits	251,739	2	-	-	1,286	-	-	-	1,288
Conversion of Class B Common Stock to Class A Common Stock	207,996	2	(207,996)	(2)	-	-	-	-	-
Payments of dividends and distributions to noncontrolling interests	-	-	-	-	-	-	-	(2,840)	(2,840)
Comprehensive Loss:									
Net income (loss)	-	-	-	-	-	(695)	-	3,346	-
Change in value of derivative instrument and related income tax effects	-	-	-	-	-	-	924	-	-
Cumulative translation adjustment	-	-	-	-	-	-	(396)	(105)	-
Total comprehensive loss	-	-	-	-	-	-	-	-	3,074
BALANCE, NOVEMBER 30, 2010	<u>33,121,285</u>	<u>\$ 331</u>	<u>4,722,684</u>	<u>\$ 47</u>	<u>\$ 528,406</u>	<u>\$ (705,830)</u>	<u>\$ (792)</u>	<u>\$ 49,823</u>	<u>\$ (128,015)</u>

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

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended November 30,	
	2009	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated net income (loss)	\$ (111,813)	\$ 2,651
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities -		
Discontinued operations	(578)	392
Impairment loss	174,642	-
Depreciation and amortization	8,522	8,007
Gain on debt extinguishment	(31,362)	-
Provision for bad debts	1,602	568
Provision (benefit) for deferred income taxes	(32,774)	5,113
Noncash compensation	1,843	1,396
(Gain) loss on sale of assets	(139)	3
Changes in assets and liabilities -		
Accounts receivable	(1,277)	(7,846)
Prepaid expenses and other current assets	12,026	2,404
Other assets	(608)	(112)
Accounts payable and accrued liabilities	(3,391)	1,983
Deferred revenue	5,846	(6,274)
Income taxes	(5,942)	(237)
Other liabilities	3,687	(1,445)
Net cash provided by operating activities - discontinued operations	4,134	1,234
Net cash provided by operating activities	24,418	7,837
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,302)	(2,543)
Cash paid for acquisitions	(4,882)	-
Proceeds from the sale of assets	9,108	-
Other	74	25
Net cash used in investing activities - discontinued operations	(286)	-
Net cash provided by (used in) investing activities	1,712	(2,518)

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

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

	Nine Months Ended November 30,	
	<u>2009</u>	<u>2010</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt	(121,737)	(12,537)
Proceeds from long-term debt	77,235	16,000
Debt-related costs	(4,846)	-
Payments of dividends and distributions to noncontrolling interests	(2,988)	(2,454)
Settlement of tax withholding obligations on stock issued to employees	(31)	(82)
Other	1	-
Net cash used in financing activities - discontinued operations	<u>(2,042)</u>	<u>(386)</u>
Net cash provided by (used in) financing activities	(54,408)	541
Effect of exchange rates on cash and cash equivalents	<u>(517)</u>	<u>(77)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(28,795)</b>	<b>5,783</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	<u>40,746</u>	<u>6,814</u>
End of period	<u>\$ 11,951</u>	<u>\$ 12,597</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for -		
Interest	\$ 15,728	\$ 16,372
Income taxes, net of refunds	4,036	640
Noncash financing transactions-		
Value of stock issued to employees under stock compensation program and to satisfy accrued incentives	1,825	1,368
<b>ACQUISITION OF NONCONTROLLING BULGARIAN RADIO INTERESTS</b>		
Fair value of assets acquired	\$ 4,882	
Cash paid	<u>(4,882)</u>	
Liabilities recorded	<u>\$ -</u>	

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

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

November 30, 2010

(Unaudited)

Note 1. Summary of Significant Accounting Policies

*Preparation of Interim Financial Statements*

Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), the condensed consolidated interim financial statements included herein have been prepared, without audit, by Emmis Communications Corporation (“ECC”) and its subsidiaries (collectively, “our,” “us,” “we,” “Emmis” or the “Company”). As permitted under the applicable rules and regulations of the SEC, certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, Emmis believes that the disclosures are adequate to make the information presented not misleading. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Emmis filed on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, for the year ended February 28, 2010. The Company’s results are subject to seasonal fluctuations. Therefore, results shown on an interim basis are not necessarily indicative of results for a full year.

In the opinion of Emmis, the accompanying condensed consolidated interim financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of Emmis at November 30, 2010, and the results of its operations for the three-month and nine-month periods ended November 30, 2009 and 2010 and cash flows for the nine-month periods ended November 30, 2009 and 2010.

*Basic and Diluted Net Income (Loss) Per Common Share*

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities at November 30, 2009 and 2010, consisted of stock options, restricted stock awards and the 6.25% Series A cumulative convertible preferred stock. We currently have 2.8 million shares of preferred stock outstanding and each share converts into 2.44 shares of common stock. Shares excluded from the calculation as the effect of their conversion into shares of our common stock would be antidilutive were as follows:

	<b>Three Months Ended November 30,</b>		<b>Nine Months Ended November 30,</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	(shares in 000's)		(shares in 000's)	
6.25% Series A cumulative convertible preferred stock	6,854	6,854	6,854	6,854
Stock options and restricted stock awards	7,614	7,999	8,866	8,172
Antidilutive common share equivalents	14,468	14,853	15,720	15,026

## Discontinued Operations

### Summary of Discontinued Operations Activity:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2010	2009	2010
Income (loss) from discontinued operations:				
Slager	\$ (1,095)	\$ (95)	\$ 1,139	\$ (392)
Belgium	-	-	(944)	-
Other	-	-	(37)	-
Total	(1,095)	(95)	158	(392)
Less: Provision for income taxes	(400)	-	-	-
Income (loss) from discontinued operations, net of tax	(695)	(95)	158	(392)
Gain on sale of discontinued operations:				
Belgium	-	-	420	-
Income (loss) from discontinued operations, net of tax	\$ (695)	\$ (95)	\$ 578	\$ (392)

### Summary of Assets and Liabilities of Discontinued Operations:

	As of February 28, 2010		As of November 30, 2010	
	Slager	Other	Slager	Other
Current assets:				
Accounts receivable, net	\$ 3,299	\$ -	\$ 143	\$ -
Prepaid expenses	180	-	25	-
Income tax receivable	1,237	-	1,459	-
Other	1,336	-	1,554	-
Total current assets	6,052	-	3,181	-
Noncurrent assets:				
Other noncurrent assets	138	-	20	-
Total noncurrent assets	138	-	20	-
Total assets	\$ 6,190	\$ -	\$ 3,201	\$ -
Current liabilities:				
Accounts payable and accrued expenses	\$ 1,565	\$ 303	\$ 553	\$ 303
Deferred revenue	513	-	162	-
Total current liabilities	\$ 2,078	\$ 303	\$ 715	\$ 303

### Discontinued Operation – Slager

On October 28, 2009, the Hungarian National Radio and Television Board (the “ORTT”) announced that it was awarding to another bidder the national radio license then held by our majority-owned subsidiary, Slager Radio Co. PLtd. (“Slager”). Slager ceased broadcasting effective November 19, 2009. We have initiated a series of legal actions in both the Hungarian and international forums, but we cannot predict the outcome of these efforts.

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

	<b>Three months ended November 30,</b>		<b>Nine months ended November 30,</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Net revenues	\$ 3,060	\$ 10	\$ 9,454	\$ 30
Station operating expenses, excluding depreciation and amortization expense	3,622	127	7,757	703
Depreciation and amortization	460	-	1,268	-
Other income (expense)	(55)	22	759	281
Income (loss) before taxes	(1,095)	(95)	1,139	(392)
Benefit for income taxes	400	-	-	-
Net income (loss) attributable to minority interests	(462)	(39)	229	(316)

### *Discontinued Operation – Belgium*

On May 29, 2009, Emmis sold the stock of its Belgium radio operation to Alfacam Group NV, a Belgian corporation, for 100 euros. Emmis desired to exit Belgium as its financial performance in the market failed to meet expectations. The sale allowed Emmis to eliminate further operating losses. Emmis recorded a full valuation allowance against the net operating losses generated by the Belgium radio operation during the nine months ended November 30, 2009. Belgium had historically been included in the radio segment. Belgium had no assets or liabilities as of February 28, 2010 and November 30, 2010. The following table summarizes certain operating results for Belgium for all periods presented:

	<b>Three months ended November 30,</b>		<b>Nine months ended November 30,</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Net revenues	\$ -	\$ -	\$ 703	\$ -
Station operating expenses, excluding depreciation and amortization expense	-	-	1,647	-
Loss before income taxes	-	-	944	-

### *Reclassifications*

Certain reclassifications have been made to the prior year's financial statements to be consistent with the November 30, 2010 presentation. The reclassifications have no impact on net income previously reported.

Note 2. Share Based Payments

**Stock Option Awards**

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

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

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model and expensed on a straight-line basis over the vesting period. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The Company includes estimated forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of awards. The Company uses the simplified method to estimate the expected term for all options granted. Although the Company has granted options for many years, the historical exercise activity of our options was impacted by the way the Company processed the equitable adjustment of our November 2006 special dividend. Consequently, the Company believes that reliable data regarding exercise behavior only exists for the period subsequent to November 2006, which is insufficient experience upon which to estimate the expected term. The risk-free interest rate for periods within the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used to calculate the fair value of the Company's options on the date of grant during the nine months ended November 30, 2009 and 2010:

	<b>Nine Months Ended November 30,</b>	
	<b>2009</b>	<b>2010</b>
Risk-Free Interest Rate:	2.3% - 2.8%	2.0% - 2.9%
Expected Dividend Yield:	0%	0%
Expected Life (Years):	6.0 - 6.5	6.5 - 6.7
Expected Volatility:	72.3% - 100.4%	98.9% - 101.5%

The following table presents a summary of the Company's stock options outstanding at November 30, 2010, and stock option activity during the nine months ended November 30, 2010 ("Price" reflects the weighted average exercise price per share):

	<b>Options</b>	<b>Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, beginning of period	9,038,076	\$ 10.18		
Granted	115,000	0.82		
Exercised (1)	-	-		
Forfeited	41,716	0.77		
Expired	476,621	22.53		
Outstanding, end of period	8,634,739	9.42	5.1	\$ 469
Exercisable, end of period	5,731,647	13.80	3.4	\$ 4

(1) No options were exercised during the nine months ended November 30, 2010; thus, the Company did not record an income tax benefit

related to option exercises. The income tax benefit associated with the options exercised in the nine months ended November 30, 2009 was immaterial.

The weighted average grant date fair value of options granted during the nine months ended November 30, 2009 and 2010, was \$0.44 and \$0.67, respectively.

A summary of the Company's nonvested options at November 30, 2010, and changes during the nine months ended November 30, 2010, is presented below:

	<b>Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested, beginning of period	3,235,738	\$ 0.78
Granted	115,000	0.67
Vested	407,678	2.74
Forfeited	39,968	0.53
Nonvested, end of period	<u>2,903,092</u>	0.50

There were 2.0 million shares available for future grants under the Company's various equity plans at November 30, 2010. The vesting dates of outstanding options at November 30, 2010 range from March 2011 to March 2013, and expiration dates range from March 2011 to November 2020.

### **Restricted Stock Awards**

The Company granted restricted stock awards to employees and directors of the Company in lieu of certain stock option grants from 2005 through 2008. These awards generally vest at the end of the second or third year after grant and are forfeited, except in certain circumstances, in the event the employee terminates his or her employment or relationship with the Company prior to vesting. The restricted stock awards were granted out of the Company's 2004 Equity Incentive Plan. The Company also awards, out of the Company's 2004 Equity Compensation Plan, stock to settle certain bonuses and other compensation that otherwise would be paid in cash. Any restrictions on these shares are immediately lapsed on the grant date. Restricted stock granted during the nine months ended November 30, 2010 mostly relates to shares granted for the Company's match of common stock in our 401(k) plan. Any restrictions on the shares granted related to the 401(k) plan are immediately lapsed on the grant date.

The following table presents a summary of the Company's restricted stock grants outstanding at November 30, 2010, and restricted stock activity during the nine months ended November 30, 2010 ("Price" reflects the weighted average share price at the date of grant):

	<b>Awards</b>	<b>Price</b>
Grants outstanding, beginning of period	398,363	\$ 5.02
Granted	254,275	2.22
Vested (restriction lapsed)	483,995	4.08
Forfeited	2,167	2.95
Grants outstanding, end of period	<u>166,476</u>	3.51

The total grant date fair value of shares vested during the nine months ended November 30, 2009 and 2010 was \$2.4 million and \$2.0 million, respectively.

## Recognized Non-Cash Compensation Expense

The following table summarizes stock-based compensation expense and related tax benefits recognized by the Company in the three months and nine months ended November 30, 2009 and 2010:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2010	2009	2010
Station operating expenses	\$ 178	\$ 89	\$ 517	\$ 607
Corporate expenses	559	198	1,326	789
Stock-based compensation expense included in operating expenses	737	287	1,843	1,396
Tax benefit	-	-	-	-
Recognized stock-based compensation expense, net of tax	<u>\$ 737</u>	<u>\$ 287</u>	<u>\$ 1,843</u>	<u>\$ 1,396</u>

As of November 30, 2010, there was \$0.7 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 1.1 years.

### Note 3. Intangible Assets and Goodwill

#### *Valuation of Indefinite-lived Broadcasting Licenses*

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

The carrying amounts of the Company’s FCC licenses were \$335.8 million as of February 28, 2010 and November 30, 2010. This amount is entirely attributable to our radio division. The Company generally performs its annual impairment test of indefinite-lived intangibles as of December 1 of each year. When indicators of impairment are present, the Company will perform an interim impairment test. During the quarter ended November 30, 2010, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. These impairment tests may result in impairment charges in future periods.

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

## Valuation of Goodwill

ASC Topic 350 requires the Company to test goodwill for impairment at least annually using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of impairment. The Company conducts the two-step impairment test on December 1 of each fiscal year, unless indications of impairment exist during an interim period. During the quarter ended November 30, 2010, no new or additional impairment indicators emerged; hence, no interim impairment testing was warranted. When assessing its goodwill for impairment, the Company uses an enterprise valuation approach to determine the fair value of each of the Company's reporting units (radio stations grouped by market and magazines on an individual basis). Management determines enterprise value for each of its reporting units by multiplying the two-year average station operating income generated by each reporting unit (current year based on actual results and the next year based on budgeted results) by an estimated market multiple. The Company uses a blended station operating income trading multiple of publicly traded radio operators as a benchmark for the multiple it applies to its radio reporting units. There are no publicly traded publishing companies that are focused predominantly on city and regional magazines as is our publishing segment. Therefore, the market multiple used as a benchmark for our publishing reporting units has been based on recently completed transactions within the city and regional magazine industry or analyst reports that include valuations of magazine divisions within publicly traded media conglomerates. Management believes this methodology for valuing radio and publishing properties is a common approach and believes that the multiples used in the valuation are reasonable given our peer comparisons and recent market transactions.

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

As of February 28, 2010 and November 30, 2010, the carrying amount of the Company's goodwill was \$24.2 million. As of February 28, 2010 and November 30, 2010, approximately \$6.3 million and \$17.9 million of our goodwill was attributable to our radio and publishing divisions, respectively.

## Definite-lived intangibles

The Company's definite-lived intangible assets consist primarily of foreign broadcasting licenses, trademarks, and favorable office leases, all of which are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company's future cash flows. The following table presents the weighted-average useful life, gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at February 28, 2010 and November 30, 2010:

	Weighted Average Useful Life (in years)	February 28, 2010			November 30, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Foreign Broadcasting Licenses	7.8	\$ 8,716	\$ 5,230	\$ 3,486	\$ 8,716	\$ 6,055	\$ 2,661
Trademarks	37.8	749	458	291	749	479	270
Favorable Office Leases	6.4	688	632	56	688	647	41
TOTAL		\$ 10,153	\$ 6,320	\$ 3,833	\$ 10,153	\$ 7,181	\$ 2,972

Total amortization expense from definite-lived intangibles for the three months ended November 30, 2009 and 2010, was \$0.3 million, respectively. Total amortization expense from definite-lived intangibles for the nine months ended November 30, 2009 and 2010, was \$1.3 million and \$0.9 million, respectively. The following table

presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles:

YEAR ENDED FEBRUARY 28 (29),	
2011	\$ 1,187
2012	1,305
2013	1,293
2014	123
2015	18

#### Note 4. Liquidity

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2011 with cash and cash equivalents on hand, projected cash flows from operations and, to the extent necessary, through its borrowing capacity under the Credit Agreement, which was approximately \$11.4 million at November 30, 2010. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2011. However, unforeseen circumstances, such as those described in Item 1A "Risk Factors" on our Form 10-K/A for the year ended February 28, 2010, may negatively impact the Company's operations beyond those assumed in its projections. Management considered the risks that the current economic conditions may have on its liquidity projections, as well as the Company's ability to meet its debt covenant requirements. If economic conditions deteriorate to an extent that we could not meet our liquidity needs or it appears that noncompliance with debt covenants is likely to result, the Company would implement several remedial measures, which could include further operating cost and capital expenditure reductions, ceasing to operate certain unprofitable properties and the sale of assets. If these measures are not successful in maintaining compliance with our debt covenants, the Company would attempt to negotiate for relief through a further amendment with its lenders or waivers of covenant noncompliance, which could result in higher interest costs, additional fees and reduced borrowing limits. There is no assurance that the Company would be successful in obtaining relief from its debt covenant requirements in these circumstances. Failure to comply with our debt covenants and a corresponding failure to negotiate a favorable amendment or waivers with the Company's lenders could result in the acceleration of the maturity of all the Company's outstanding debt, which would have a material adverse effect on the Company's business and financial position.

Under the terms of the Second Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement, the Company must maintain a minimum amount of trailing twelve-month Consolidated EBITDA (as defined in the Credit Agreement) and at least \$5 million in Liquidity (as defined in the Credit Agreement) through September 1, 2011. Subsequent to September 1, 2011, the Company must meet the Total Leverage Ratio and the Fixed Charge Coverage Ratio financial covenants (each as defined in the Credit Agreement). The Credit Agreement also contains certain other non-financial covenants. We were in compliance with all financial and non-financial covenants as of November 30, 2010. Our Liquidity (as defined in the Credit Agreement) as of November 30, 2010 was \$16.4 million. Our minimum Consolidated EBITDA (as defined in the Credit Agreement) requirement and actual amount as of November 30, 2010 was as follows:

	<b>As of November 30, 2010</b>	
	<b>Covenant Requirement</b>	<b>Actual Trailing Twelve-Month Consolidated EBITDA<sup>1</sup></b>
Trailing Twelve-month Consolidated EBITDA <sup>1</sup>	\$ 22,700	\$ 26,322

<sup>1</sup> (as defined in the Credit Agreement)

While the Company is currently in compliance with all of the financial and non-financial covenants in the Second Amendment to its Credit Facility, the suspension of certain covenants provided by the Second Amendment expires on September 1, 2011. After September 1, 2011, the Company must maintain compliance with the original financial and non-financial covenants in its Credit Facility, which are more restrictive. Absent asset sales, which the Company is actively pursuing, the Company believes it is unlikely it will be able to maintain compliance with the financial covenants after September 1, 2011. Non-compliance with the financial covenants would be considered an event of default under our Credit Agreement, giving our lenders the right, among other things, to accelerate the maturity of our Credit Agreement indebtedness. The terms of the Credit Agreement also state that the issuance of an opinion by our independent auditors that is modified to express substantial doubt about Emmis' ability to continue as a going concern is an event of default under the Credit Agreement. Our ability to maintain compliance with our financial and non-financial covenants throughout fiscal 2012 and the adequacy of our plans to address the impact of non-compliance on our liquidity will be factors considered by our auditors in rendering their opinion on our financial statements for the year ending February 28, 2011, which are expected to be issued in May 2011.

#### Note 5. Derivative Instruments and Hedging Activities

##### *Risk Management Objective of Using Derivatives*

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

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

##### *Cash Flow Hedges of Interest Rate Risk*

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company's interest rate derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company did not record any hedge ineffectiveness in earnings during the three months or nine months ended November 30, 2009 and 2010.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional \$1.2 million will be reclassified as an increase to interest expense over the next twelve months.

As of November 30, 2010, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

<u>Interest Rate Derivative</u>	<u>Number of Instruments</u>	<u>Notional</u>
Interest Rate Swaps	2	\$ 175,000

In March 2007, the Company entered into a three-year interest rate exchange agreement (a "Swap"), whereby the Company paid a fixed rate of 4.795% on \$165 million of notional principal to Bank of America, and Bank of America paid to the Company a variable rate on the same amount of notional principal based on the three-month London Interbank Offered Rate ("LIBOR"). This swap matured in March 2010, at which time the Company recognized a \$2.0 million tax benefit that had previously been recorded in accumulated other comprehensive loss. In March 2008, the Company entered into an additional three-year Swap, whereby the Company pays a fixed rate of 2.964% on \$100 million of notional principal to Deutsche Bank, and Deutsche Bank pays to the Company a variable rate on the same amount of notional principal based on the three-month LIBOR. In January 2009, the Company entered into an additional two-year Swap effective as of March 28, 2009, whereby the Company pays a fixed rate of 1.771% on \$75 million of notional principal to Deutsche Bank, and Deutsche Bank pays to the Company a variable rate on the same amount of notional principal based on the three-month LIBOR.

The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet as of February 28, 2010 and November 30, 2010. Accumulated other comprehensive loss balances related to our derivative instruments at February 28, 2010 and November 30, 2010 were \$1,289 and \$365, respectively. The fair values of the derivative instruments are estimated by obtaining quotations from the financial institution that is the counterparty to the instruments. The fair value is an estimate of the net amount that the Company would have been required to pay on February 28, 2010 and November 30, 2010, if the agreements were transferred to other parties or cancelled by the Company, as further adjusted by a credit adjustment required by ASC Topic 820, *Fair Value Measurements and Disclosures*, discussed below.

**Tabular Disclosure of Fair Values of Derivative Instruments**

	Asset Derivatives				Liability Derivatives			
	As of February 28, 2010		As of November 30, 2010		As of February 28, 2010		As of November 30, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments								
Interest Rate Swap Agreements (Current Portion)	N/A	\$ -	N/A	\$ -	Other Current Liabilities	\$ 569	Other Current Liabilities	\$ 1,151
Interest Rate Swap Agreements (Long Term Portion)	N/A	-	N/A	-	Other Noncurrent Liabilities	3,499	N/A	-
Total derivatives designated as hedging instruments		\$ -		\$ -		\$ 4,068		\$ 1,151

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the three months and nine months ended November 30, 2009 and 2010.

**For the Three Months Ended November 30,**

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2010		2009	2010		2009	2010
	Interest Rate Swap Agreements	\$ (1,763)		\$ (80)	Interest expense		\$ (2,757)	\$ (922)
Total	\$ (1,763)	\$ (80)		\$ (2,757)	\$ (922)		\$ -	\$ -

**For the Nine Months Ended November 30,**

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2010		2009	2010		2009	2010
	Interest Rate Swap Agreements	\$ (6,617)		\$ (475)	Interest expense		\$ (7,151)	\$ (3,392)
Total	\$ (6,617)	\$ (475)		\$ (7,151)	\$ (3,392)		\$ -	\$ -

*Credit-risk-related Contingent Features*

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

In accordance with ASC Topic 820, the Company makes Credit Value Adjustments (CVAs) to adjust the valuation of derivatives to account for our own credit risk with respect to all derivative liability positions. The CVA is accounted for as a decrease to the derivative position with the corresponding increase or decrease reflected in accumulated other comprehensive income (loss) for derivatives designated as cash flow hedges. The CVA also accounts for nonperformance risk of our counterparty in the fair value measurement of all derivative asset positions, when appropriate. As of February 28, 2010 and November 30, 2010, the fair value of our derivative instruments was net of \$0.3 million and \$0 million in CVAs, respectively.

The Company's interest rate swap agreements with Deutsche Bank incorporate the loan covenant provisions of the Company's Credit Agreement. Deutsche Bank is a lender under the Company's Credit Agreement. Failure to comply with the loan covenant provisions of the Credit Agreement could result in the Company being in default of its obligations under the interest rate swap agreements.

As of November 30, 2010, the Company has not posted any collateral related to the interest rate swap agreements.

#### Note 6. Fair Value Measurements

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

#### *Recurring Fair Value Measurements*

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of February 28, 2010 and November 30, 2010. 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.

	<b>As of November 30, 2010</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>Quoted Prices in Active Markets for Identical Assets or Liabilities</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs</b>	
Available for sale securities	\$ -	\$ -	\$ 452	\$ 452
Total assets measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 452</u>	<u>\$ 452</u>
Interest rate swap agreements	\$ -	\$ -	\$ 1,151	\$ 1,151
Total liabilities measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,151</u>	<u>\$ 1,151</u>

	As of February 28, 2010			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	\$ -	\$ -	\$ 452	\$ 452
Total assets measured at fair value on a recurring basis	\$ -	\$ -	\$ 452	\$ 452
Interest rate swap agreements	-	-	4,068	4,068
Total liabilities measured at fair value on a recurring basis	\$ -	\$ -	\$ 4,068	\$ 4,068

*Available for sale securities* — Emmis' available for sale security is an investment in preferred stock of a company that specializes in digital radio transmission technology that is not traded in active markets. The investment is recorded at fair value, which is materially consistent with the Company's cost basis. This is considered a Level 3 input.

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

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

	For the Nine Months Ending			
	November 30, 2009		November 30, 2010	
	Available For Sale Securities	Derivative Instruments	Available For Sale Securities	Derivative Instruments
Beginning Balance	\$ 452	\$ 6,777	\$ 452	\$ 4,068
Realized losses included in earnings	-	(7,151)	-	(3,392)
Changes in other comprehensive income	-	6,617	-	475
Ending Balance	\$ 452	\$ 6,243	\$ 452	\$ 1,151

### *Non-Recurring Fair Value Measurements*

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

During the three months and nine months ended November 30, 2010, there were no adjustments to the fair value of these assets as there were no indicators that would have required interim testing.

### *Fair Value Of Other Financial Instruments*

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

amounts that the Company could realize in a current market exchange, or the value that ultimately will be realized upon maturity or disposition. The use of different market assumptions may have a material effect on the estimated fair value amounts.

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

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

- *Credit Agreement debt:* As of February 28, 2010 and November 30, 2010, the fair value of the Company's Credit Agreement debt based on bid prices as of those dates was \$283.2 million and \$289.5 million, respectively, while the carrying value was \$341.2 million and \$344.6 million, respectively.

- *6.25% Series A cumulative convertible preferred stock:* As of February 28, 2010 and November 30, 2010, the fair value of the Company's 6.25% Series A cumulative convertible preferred stock based on quoted market prices was \$41.0 million and \$41.4 million, respectively, while the carrying value was \$140.5 million for both periods.

#### Note 7. Comprehensive Income (Loss)

Comprehensive income (loss) was comprised of the following for the three months and nine months ended November 30, 2009 and 2010:

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended November 30,</b>		<b>Ended November 30,</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Consolidated net income (loss)	\$ 4,583	\$ 2,060	\$ (111,813)	\$ 2,651
Other comprehensive income (loss), net of tax:				
Change in fair value of derivatives	994	843	534	924
Translation adjustment	590	1,227	(1,390)	(501)
Comprehensive income (loss)	<u>\$ 6,167</u>	<u>\$ 4,130</u>	<u>\$ (112,669)</u>	<u>\$ 3,074</u>
Less: Comprehensive income attributable to noncontrolling interests	<u>(823)</u>	<u>(1,475)</u>	<u>(3,021)</u>	<u>(3,241)</u>
Comprehensive income (loss) attributable to the Company	<u><u>\$ 5,344</u></u>	<u><u>\$ 2,655</u></u>	<u><u>\$ (115,690)</u></u>	<u><u>\$ (167)</u></u>

#### Note 8. Segment Information

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

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

	Net Revenues		Net Revenues		Long-lived Assets	
	Three Months Ended November 30, 2009	Three Months Ended November 30, 2010	Nine Months Ended November 30, 2009	Nine Months Ended November 30, 2010	As of February 28, 2010	As of November 30, 2010
<i>Continuing Operations:</i>						
Slovakia	\$ 3,398	\$ 2,785	\$ 9,937	\$ 9,011	\$ 9,371	\$ 7,976
Bulgaria	486	288	1,493	1,008	1,119	880
<i>Discontinued Operations (see Note 1):</i>						
Hungary	\$ 3,060	\$ 10	\$ 9,454	\$ 30	\$ 138	\$ 20
Belgium	-	-	703	-	-	-

The accounting policies as described in the summary of significant accounting policies included in the Company's Annual Report filed on Form 10-K/A, for the year ended February 28, 2010, and in Note 1 to these condensed consolidated financial statements, are applied consistently across segments.

Three Months Ended November 30, 2009	Radio	Publishing	Corporate	Consolidated
Net revenues	\$ 45,655	\$ 18,927	\$ -	\$ 64,582
Station operating expenses, excluding depreciation and amortization	33,570	15,888	-	49,458
Corporate expenses, excluding depreciation and amortization	-	-	3,567	3,567
Depreciation and amortization	1,947	143	360	2,450
Loss on disposal of fixed assets	8	1	-	9
Operating income (loss)	\$ 10,130	\$ 2,895	\$ (3,927)	\$ 9,098

Three Months Ended November 30, 2010	Radio	Publishing	Corporate	Consolidated
Net revenues	\$ 47,960	\$ 18,505	\$ -	\$ 66,465
Station operating expenses, excluding depreciation and amortization	32,572	16,584	-	49,156
Corporate expenses, excluding depreciation and amortization	-	-	3,403	3,403
Depreciation and amortization	1,884	122	307	2,313
Loss on disposal of fixed assets	3	-	-	3
Operating income (loss)	\$ 13,501	\$ 1,799	\$ (3,710)	\$ 11,590

Nine Months Ended November 30, 2009	Radio	Publishing	Corporate	Consolidated
Net revenues	\$ 138,871	\$ 49,716	\$ -	\$ 188,587
Station operating expenses, excluding depreciation and amortization	106,690	47,937	-	154,627
Corporate expenses, excluding depreciation and amortization	-	-	10,649	10,649
Depreciation and amortization	6,185	636	1,135	7,956
Impairment loss	166,571	8,071	-	174,642
Restructuring charge	1,412	741	1,197	3,350
Gain on disposal of fixed assets	18	1	(158)	(139)
Operating loss	<u>\$ (142,005)</u>	<u>\$ (7,670)</u>	<u>\$ (12,823)</u>	<u>\$ (162,498)</u>

Nine Months Ended November 30, 2010	Radio	Publishing	Corporate	Consolidated
Net revenues	\$ 144,033	\$ 49,618	\$ -	\$ 193,651
Station operating expenses, excluding depreciation and amortization	102,685	46,777	-	149,462
Corporate expenses, excluding depreciation and amortization	-	-	13,278	13,278
Depreciation and amortization	5,728	382	1,007	7,117
Loss on disposal of fixed assets	3	-	-	3
Operating income (loss)	<u>\$ 35,617</u>	<u>\$ 2,459</u>	<u>\$ (14,285)</u>	<u>\$ 23,791</u>

	As of February 28, 2010			
	Radio	Publishing	Corporate	Consolidated
Assets - continuing operations	\$ 418,259	\$ 39,431	\$ 34,288	\$ 491,978
Assets - discontinued operations	6,190	-	-	6,190
Total assets	<u>\$ 424,449</u>	<u>\$ 39,431</u>	<u>\$ 34,288</u>	<u>\$ 498,168</u>

	As of November 30, 2010			
	Radio	Publishing	Corporate	Consolidated
Assets - continuing operations	\$ 421,629	\$ 37,348	\$ 37,704	\$ 496,681
Assets - discontinued operations	3,201	-	-	3,201
Total assets	<u>\$ 424,830</u>	<u>\$ 37,348</u>	<u>\$ 37,704</u>	<u>\$ 499,882</u>

## Note 9. Regulatory, Legal and Other Matters

### *Shareholder Litigation*

On April 26, 2010, JS Acquisition, Inc. (“JS Acquisition”), a corporation owned entirely by our Chairman, Chief Executive Officer and President, Mr. Jeffrey H. Smulyan, and Alden Global Capital (together with its affiliates and related parties, “Alden”) entered into a non-binding Letter of Intent (the “Letter of Intent”) with respect to a series of transactions relating to the equity securities of Emmis. Subsequently, JS Acquisition and Alden entered into a formal Securities Purchase Agreement, and Emmis and JS Acquisition entered into a Merger Agreement, all of which were designed to take Emmis private in a series of transactions that involved (i) JS Acquisition offering to purchase all of the Class A Common Stock at a price of \$2.40 per share (the “Tender Offer”), (ii) Emmis offering to exchange (the “Exchange Offer”) all of its 6.25% Series A Cumulative Convertible

Preferred Stock (the “Existing Preferred Stock”) for 12% PIK Senior Subordinated Notes due 2017 (the “New Notes”), (iii) the adoption of certain amendments to the terms of the Existing Preferred Stock (the “Proposed Amendments”) and (iv) a subsequent merger of JS Acquisition into Emmis (the “Merger” and together with the Tender Offer, the Exchange Offer and the Proposed Amendments, the “Going Private Transaction”). In connection with the Going Private Transaction, a number of lawsuits were filed against various combinations of Emmis, JS Acquisition, Alden, and members of the board of directors of Emmis.

As discussed in Note 10, on September 9, 2010, this Going Private Transaction was effectively terminated and the lawsuits filed against various combinations of Emmis, JS Acquisition, Alden, and members of the board of directors of Emmis were subsequently dismissed.

#### *Other Litigation and Regulatory Proceedings*

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

#### Note 10. Going Private Transaction

On September 9, 2010, Emmis announced that the Proposed Amendments had not received the requisite shareholder vote to pass and that the Exchange Offer had terminated. The Exchange Offer was conditioned upon, among other things, the adoption of the Proposed Amendments. The same day, Emmis was informed that the Tender Offer, which was also conditioned upon adoption of the Proposed Amendments, had also terminated.

#### Note 11. Subsequent Event

At the 2010 annual meeting of shareholders held on December 17, 2010, the shareholders of Emmis approved the 2010 Equity Compensation Plan. The 2010 Plan permits the delivery of a maximum of 2,000,000 shares of our common stock, plus any unused shares of common stock available under our 2004 Equity Compensation Plan, and shares subject to awards under that prior plan that would again become available for new grants under the terms of such plan if that plan were still in effect. This prior plan will be terminated as of the effective date of the 2010 Plan. The board of directors included 2,000,000 new shares under the 2010 Plan based on the expectation that these shares would service Emmis’ stock compensation program and other equity compensation needs for approximately three years. Emmis also decided to incorporate all shares remaining available for issuance under the prior 2004 plan into the 2010 Plan so that their issuance would be governed by the newer 2010 Plan, which provides greater administrative consistency. The inclusion of these additional shares from the prior plan does not increase the total number of shares available for awards because the shares would otherwise remain available for awards under the terms of the prior plan.

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

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

- *general economic and business conditions;*
- *fluctuations in the demand for advertising and demand for different types of advertising media;*
- *our ability to service our outstanding debt;*
- *loss of key personnel;*
- *increased competition in our markets and the broadcasting industry;*
- *our ability to attract and secure programming, on-air talent, writers and photographers;*
- *inability to obtain (or to obtain timely) necessary approvals for purchase or sale transactions or to complete the transactions for other reasons generally beyond our control;*
- *increases in the costs of programming, including on-air talent;*
- *new or changing regulations of the Federal Communications Commission or other governmental agencies;*
- *changes in radio audience measurement methodologies;*
- *competition from new or different technologies;*
- *war, terrorist acts or political instability; and*
- *other factors mentioned in other documents filed by the Company with the Securities and Exchange Commission.*

*For a more detailed discussion of these and other risk factors, see the Risk Factors section of our Annual Report on Form 10-K/A, for the year ended February 28, 2010. Emmis does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise.*

## **GENERAL**

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

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

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

The following table summarizes the sources of our revenues for the three-month and nine-month periods ended November 30, 2009 and 2010. All revenues generated by our international radio properties are included in the "Local" category. The category "Non Traditional" principally consists of ticket sales and sponsorships of events our stations and magazines conduct in their local markets. The category "Other" includes, among other items, revenues generated by the websites of our entities and barter.

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2009	% of Total	2010	% of Total	2009	% of Total	2010	% of Total
	(Dollars in thousands)				(Dollars in thousands)			
Net revenues:								
Local	\$ 36,723	56.9%	\$ 35,868	54.0%	\$ 111,554	59.2%	\$ 108,109	55.8%
National	9,884	15.3%	11,534	17.4%	25,192	13.4%	29,267	15.1%
Political	193	0.3%	1,003	1.5%	279	0.1%	1,600	0.8%
Publication Sales	3,697	5.7%	3,729	5.6%	9,698	5.1%	9,989	5.2%
Non Traditional	3,768	5.8%	3,411	5.1%	14,449	7.7%	15,062	7.8%
Other	10,317	16.0%	10,920	16.4%	27,415	14.5%	29,624	15.3%
Total net revenues	<u>\$ 64,582</u>		<u>\$ 66,465</u>		<u>\$ 188,587</u>		<u>\$ 193,651</u>	

As previously mentioned, we derive approximately 70% of our net revenues from advertising sales. Our radio stations derive a higher percentage of their advertising revenues from local sales than our publishing entities. In the nine-month period ended November 30, 2010, local sales, excluding political revenues, represented approximately 83% and 60% of our advertising revenues for our radio and publishing divisions, respectively. In the nine-month period ended November 30, 2009, local sales, excluding political revenues, represented approximately 84% and 70% of our advertising revenues for our radio and publishing divisions, respectively.

No customer represents more than 10% of our consolidated net revenues. Our top ten categories for radio represent approximately 61% of our radio division's total advertising net revenues. The automotive industry, representing approximately 9% of our radio net revenues, is the largest category for our radio division for the nine-month periods ended November 30, 2009 and 2010.

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

## KNOWN TRENDS AND UNCERTAINTIES

Although the recent global recession negatively impacted advertising revenues for a wide variety of media businesses, domestic radio revenue growth has been challenged for several additional years. Management believes this is principally the result of four factors unrelated to the recession: (1) the emergence of new media, such as various media content distributed via the Internet, telecommunication companies and cable interconnects, which are gaining advertising share against radio and other traditional media, (2) the perception of investors and advertisers that satellite radio and portable media players diminish the effectiveness of radio advertising, (3) advertisers' lack of confidence in the ratings of radio stations, and (4) a lack of inventory and pricing discipline by radio operators.

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

Along with the rest of the radio industry, the majority of our stations have deployed HD Radio<sup>®</sup>. HD Radio<sup>®</sup> offers listeners advantages over standard analog broadcasts, including improved sound quality and additional

digital channels. To make the rollout of HD Radio<sup>®</sup> more efficient, a consortium of broadcasters representing a majority of the radio stations in nearly all of our markets have agreed to work together in each radio market to ensure the most diverse consumer offering possible and to accelerate the rollout of HD Radio<sup>®</sup> receivers, particularly in automobiles. In addition to offering secondary channels, the HD Radio<sup>®</sup> spectrum allows broadcasters to transmit other forms of data. We are participating in a joint venture with other broadcasters to provide the bandwidth that a third party will use to transmit location-based data to hand-held and in-car navigation devices. It is unclear what impact HD Radio<sup>®</sup> will have on the markets in which we operate.

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

As part of our business strategy, we continually evaluate potential acquisitions of radio stations, publishing properties and other businesses that we believe hold promise for long-term appreciation in value and leverage our strengths. However, the August 2009 amendment to Emmis Operating Company's (the Company's principal operating subsidiary, hereinafter "EOC") Credit Agreement substantially limits our ability to make acquisitions prior to September 2011. We also regularly review our portfolio of assets and may opportunistically dispose of assets when we believe it is appropriate to do so. In particular, we have one radio station in New York City and two radio stations in Chicago where we believe the sale value could exceed the prospects for cash flow generation as part of our portfolio. Although we remain optimistic about the growth potential of these stations, we are exploring the sale of one or more of these stations as a means of maintaining compliance with certain covenants in the Credit Agreement.

## **CRITICAL ACCOUNTING POLICIES**

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

### *Revenue Recognition*

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

### *Allowance for Doubtful Accounts*

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

### *FCC Licenses and Goodwill*

We have made acquisitions in the past for which a significant amount of the purchase price was allocated to FCC licenses and goodwill assets. As of November 30, 2010, we have recorded approximately \$360.0 in goodwill and FCC licenses, which represents approximately 72% of our total assets.

In the case of our U.S. radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future. We consider our FCC licenses to be indefinite-lived intangibles. Our foreign broadcasting licenses expire during periods ranging from December 2012 to February 2013. We will need to submit applications to extend our foreign licenses upon their expiration to continue our broadcast operations in these countries. While there is a general expectancy of renewal of radio broadcast licenses in most countries and we expect to actively seek renewal of our foreign licenses, both of the countries in which we operate do not have the regulatory framework or history that we have with respect to license renewals in the United States. This makes the risk of non-renewal (or of renewal on less favorable terms) of foreign licenses greater than for United States licenses, as was recently demonstrated in Hungary when our broadcasting license was not renewed in November 2009 under circumstances that even a Hungarian court ruled violated the Hungarian Media Law. We treat our foreign broadcasting licenses as definite-lived intangibles and amortize them over their respective license periods.

We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired. When evaluating our radio broadcasting licenses for impairment, the testing is performed at the unit of accounting level as determined by Accounting Standards Codification ("ASC") Topic 350-30-35. In our case, radio stations in a geographic market cluster are considered a single unit of accounting, provided that they are not being operated under a Local Marketing Agreement by another broadcaster.

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

### *Valuation of Indefinite-lived Broadcasting Licenses*

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

conditions, audience behavior, consummated transactions, and numerous other variables that may be beyond our control.

### *Valuation of Goodwill*

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

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

### *Deferred Taxes*

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequence of events that have been recognized in the Company's financial statements or income tax returns. Income taxes are recognized during the year in which the underlying transactions are reflected in the consolidated statements of operations. Deferred taxes are provided for temporary differences between amounts of assets and liabilities as recorded for financial reporting purposes and amounts recorded for income tax purposes. After determining the total amount of deferred tax assets, the Company determines whether it is more likely than not that some portion of the deferred tax assets will not be realized. If the Company determines that a deferred tax asset is not likely to be realized, a valuation allowance will be established against that asset to record it at its expected realizable value.

### *Estimate of Effective Tax Rates*

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

## Results of Operations for the Three-month and Nine-month Periods Ended November 30, 2010, Compared to November 30, 2009

### Net revenues:

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)				(As reported, amounts in thousands)			
Net revenues:								
Radio	\$ 45,655	\$ 47,960	\$ 2,305	5.0%	\$ 138,871	\$ 144,033	\$ 5,162	3.7%
Publishing	18,927	18,505	(422)	(2.2)%	49,716	49,618	(98)	(0.2)%
Total net revenues	\$ 64,582	\$ 66,465	\$ 1,883	2.9%	\$ 188,587	\$ 193,651	\$ 5,064	2.7%

Radio net revenues increased in the three-month and nine-month periods ended November 30, 2010 as compared to the same period of the prior year principally due to improved economic conditions in the markets in which we operate. We typically monitor the performance of our domestic stations against the aggregate performance of the markets in which we operate based on reports for the periods prepared by Miller Kaplan. Miller Kaplan reports are generally prepared on a gross revenues basis and exclude revenues from barter arrangements. Miller Kaplan reported gross revenues for our domestic radio markets increased 6.0% for the nine-month period ended November 30, 2010 as compared to the same period of the prior year. Our gross revenues as reported to Miller Kaplan fell short of the performance of the markets in which we operate, posting an increase of 5.1% compared to the prior year. Our gross revenues grew more than the market average in our three mid-sized markets (St. Louis, Indianapolis and Austin) and trailed the market average in our three largest markets (New York, Los Angeles and Chicago). Revenue declines at WRKS in New York, KPWR in Los Angeles and WLUP in Chicago caused us to fall short of the performance of the markets in which we operate. Miller Kaplan does not report gross revenue market data for our Terre Haute market. For the nine-month period ended November 30, 2010 as compared to the same period of the prior year, our average rate per minute for our domestic radio stations was up 3%, and our minutes sold were up 2%.

Publishing net revenues decreased in the three-month and in the nine-month periods ended November 30, 2010 as compared to the same periods of the prior year as the advertising environment for publications remains challenging. National advertising sales have been stronger than local advertising sales. Consequently, our two largest publications (Texas Monthly and Los Angeles Magazine), which derive a greater percentage of their advertising revenues from national clients, have outperformed our smaller publications, which rely more heavily on advertising from local clients.

### Station operating expenses, excluding depreciation and amortization expense:

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)				(As reported, amounts in thousands)			
Station operating expenses, excluding depreciation and amortization expense:								
Radio	\$ 33,570	\$ 32,572	\$ (998)	(3.0)%	\$ 106,690	\$ 102,685	\$ (4,005)	(3.8)%
Publishing	15,888	16,584	696	4.4%	47,937	46,777	(1,160)	(2.4)%
Total station operating expenses, excluding depreciation and amortization expense	\$ 49,458	\$ 49,156	\$ (302)	(0.6)%	\$ 154,627	\$ 149,462	\$ (5,165)	(3.3)%

Station operating expenses, excluding depreciation and amortization expense, decreased in the three-month and nine-month periods ended November 30, 2010 principally due to the effect of company-wide cost reduction measures implemented in the prior fiscal year. These initiatives included personnel reductions, wage cuts, reductions in benefits and a significant reduction in discretionary spending.

## Corporate expenses, excluding depreciation and amortization expense:

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)				(As reported, amounts in thousands)			
Corporate expenses excluding depreciation and amortization expense	\$ 3,567	\$ 3,403	\$ (164)	(4.6)%	\$ 10,649	\$ 13,278	\$ 2,629	24.7%

Corporate expenses, excluding depreciation and amortization expense, increased in the nine-month period ended November 30, 2010 mostly due to costs incurred by the Company associated with the Going Private Transaction discussed in Note 10 to the accompanying condensed consolidated financial statements. The Company recorded \$0.4 million and \$3.5 million of costs associated with the transaction in the three-month and nine-month periods ended November 30, 2010. Corporate expenses, excluding depreciation and amortization expense, decreased in the three-month period ended November 30, 2010 as a result of expense reduction initiatives instituted in the prior year and lower share based compensation expense.

## Restructuring charge:

	For the three months ended November 30,			For the nine months ended November 30,		
	2009	2010	\$ Change	2009	2010	\$ Change
	(As reported, amounts in thousands)			(As reported, amounts in thousands)		
Restructuring charge	\$ -	\$ -	\$ -	\$ 3,350	\$ -	\$ (3,350)

The Company announced a plan on March 5, 2009 to reduce payroll costs by \$10 million annually. In connection with the plan, approximately 100 employees were terminated. The terminated employees received severance of \$4.2 million under the Company's standard severance plan. This amount was recognized in the three-month period ended February 28, 2009, as the terminations were probable and the amount was reasonably estimable prior to the end of the period. Employees terminated also received one-time enhanced severance of \$3.4 million that was recognized during the three months ended May 31, 2009, as the enhanced plan was not finalized and communicated until March 5, 2009.

## Impairment loss:

	For the three months ended November 30,			For the nine months ended November 30,		
	2009	2010	\$ Change	2009	2010	\$ Change
	(As reported, amounts in thousands)			(As reported, amounts in thousands)		
Impairment loss	\$ -	\$ -	\$ -	\$ 174,642	\$ -	\$ (174,642)

During the first quarter of fiscal 2010, Emmis purchased the remaining ownership interests of its two majority owned radio networks in Bulgaria. Approximately \$3.7 million of the purchase price related to these acquisitions was allocated to goodwill, which was then determined to be substantially impaired. During the second quarter of fiscal 2010, we performed an interim impairment test of our intangible assets as indicators of impairment were present. In connection with the interim review, we recorded an impairment loss of \$160.9 million related to our radio FCC licenses, \$5.3 million related to goodwill at our Los Angeles Magazine publication, \$2.8 million related to definite-lived intangibles at our Orange Coast Magazine publication and \$2.0 million related to our Bulgarian foreign broadcast licenses.

Due to the stabilization in the economy and a recovery in radio revenues, we do not expect to record impairment charges in the foreseeable future in the size or magnitude of those recorded in the prior year. Accordingly, we do not expect historical operating results to be indicative of future operating results.

## Depreciation and amortization:

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)							
Depreciation and amortization:								
Radio	\$ 1,947	\$ 1,884	\$ (63)	(3.2)%	\$ 6,185	\$ 5,728	\$ (457)	(7.4)%
Publishing	143	122	(21)	(14.7)%	636	382	(254)	(39.9)%
Corporate	360	307	(53)	(14.7)%	1,135	1,007	(128)	(11.3)%
Total depreciation and amortization	<u>\$ 2,450</u>	<u>\$ 2,313</u>	<u>\$ (137)</u>	<u>(5.6)%</u>	<u>\$ 7,956</u>	<u>\$ 7,117</u>	<u>\$ (839)</u>	<u>(10.5)%</u>

Substantially all of the decrease in radio depreciation and amortization for the nine-month period ended November 30, 2010 relates to lower amortization of the Company's foreign intangible assets as a result of impairment losses recorded pursuant to our impairment reviews in the prior fiscal year.

Substantially all of the decrease in publishing depreciation and amortization for the nine month-period ended November 30, 2010 relates to lower amortization of the Company's Orange Coast intangible assets as a result of impairment losses recorded pursuant to our impairment reviews in the prior fiscal year.

The decrease in depreciation expense for the three-month period ended November 30, 2010 is attributable to certain assets becoming fully depreciated; thus the Company has ceased to record depreciation expense on those assets.

## Operating income (loss):

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)							
Operating income (loss):								
Radio	\$ 10,130	\$ 13,501	\$ 3,371	33.3%	\$ (142,005)	\$ 35,617	\$ 177,622	N/A
Publishing	2,895	1,799	(1,096)	(37.9)%	(7,670)	2,459	10,129	N/A
Corporate	(3,927)	(3,710)	217	5.5%	(12,823)	(14,285)	(1,462)	(11.4)%
Total operating income (loss):	<u>\$ 9,098</u>	<u>\$ 11,590</u>	<u>\$ 2,492</u>	<u>27.4%</u>	<u>\$ (162,498)</u>	<u>\$ 23,791</u>	<u>\$ 186,289</u>	<u>N/A</u>

The increase in operating income is mostly attributable to the impairment loss and restructuring charge incurred during the nine-month period ended November 30, 2009, but not duplicated in the current fiscal year. Excluding these items, operating income would have increased \$8.3 million for the nine-month period ended November 30, 2010 as compared to the same period of the prior year principally due to improving net revenues for our radio division and lower station operating expenses, excluding depreciation and amortization, in both our radio and publishing divisions, both of which are partially offset by higher corporate expenses due to costs incurred related to the going private transaction.

## Interest expense:

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)							
Interest expense	\$ 7,237	\$ 5,195	\$ (2,042)	(28.2)%	\$ 18,161	\$ 16,084	\$ (2,077)	(11.4)%

The decrease in interest expense is due to the March 2010 maturation of our swap with Bank of America that had fixed the rate we pay on the three-month LIBOR at 4.795% on \$165 million of notional principal. This is partially offset by a 2% interest rate increase on our Credit Agreement debt as a result of an amendment to the Credit Agreement in August 2009.

## Gain on debt extinguishment:

	For the three months ended November 30,			For the nine months ended November 30,		
	2009	2010	\$ Change	2009	2010	\$ Change
	(As reported, amounts in thousands)			(As reported, amounts in thousands)		
Gain on debt extinguishment	\$ -	\$ -	\$ -	\$ 31,362	\$ -	\$ (31,362)

In April 2009, Emmis commenced a series of Dutch auction tenders to purchase term loans of EOC under the Credit Agreement as amended. The cumulative effect of all of the debt tenders resulted in the purchase of \$78.5 million in face amount of EOC's outstanding term loans for \$44.7 million in cash. As a result of these purchases, Emmis recognized a gain on extinguishment of debt of \$31.9 million in the quarter ended May 31, 2009, which is net of transaction costs of \$1.0 million. We are not permitted to effect further tenders under the Credit Agreement.

In August 2009, Emmis amended its Credit Agreement. As part of the August 2009 amendment, maximum availability under the revolver was reduced from \$75 million to \$20 million. The Company recorded a loss on debt extinguishment during the three months ended August 31, 2009 of \$0.5 million related to the write-off of deferred debt costs associated with the revolver reduction.

## Provision (benefit) for income taxes:

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)				(As reported, amounts in thousands)			
Provision (benefit) for income taxes	\$ (3,390)	\$ 4,108	\$ 7,498	221.2%	\$ (36,604)	\$ 4,426	\$ 41,030	N/A

The change in the provision (benefit) for income taxes for the nine-month period ended November 30, 2010 was primarily due to the increase in pre-tax income. The Company is recording a valuation allowance for most of its deferred tax assets, including its net operating loss carryforwards. Additionally, during the nine-month period ended November 30, 2010, the Company recorded a benefit for income taxes of approximately \$2.0 million related to an interest rate swap agreement that matured during the period. A full valuation allowance was previously established for the deferred tax asset related to the interest rate swap agreement and was realized during the period. This benefit had previously been recorded in accumulated other comprehensive income (loss) pending the maturity of the swap agreement.

The change in the provision (benefit) for income taxes for the three-month period ended November 30, 2010 was primarily due to the recording of a \$4.8 million benefit during the three-month period ended November 30, 2009 related to alternative minimum tax paid by Emmis in 2006 and 2007, which was able to be recouped after the signing of the Worker, Homeownership, and Business Assistance Act of 2009. The remaining change relates to the increase in pre-tax income.

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

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)				(As reported, amounts in thousands)			
(Gain) loss from discontinued operations, net of tax	\$ 695	\$ 95	\$ (600)	(86.3)%	\$ (578)	\$ 392	\$ 970	(167.8)%

Our Hungarian radio operations and Belgium radio operations have been classified as discontinued operations in the accompanying condensed consolidated statements. The decrease in income from discontinued operations, net of tax mostly relates to the cessation of Hungarian radio operation in November 2009. The loss incurred by Slager during the three-month and nine-month periods ended November 30, 2010 mostly relates to expenses associated with the wind-down of operations, which includes settlement of working capital items and litigation costs to pursue legal remedies following the 2009 Hungarian national radio license tender process. See Note 1 to the accompanying condensed consolidated financial statements for more discussion of the results of operations of

these businesses.

### Consolidated net income (loss):

	For the three months ended November 30,				For the nine months ended November 30,			
	2009	2010	\$ Change	% Change	2009	2010	\$ Change	% Change
	(As reported, amounts in thousands)				(As reported, amounts in thousands)			
Consolidated net income (loss)	\$ 4,583	\$ 2,060	\$ (2,523)	(55.1%)	\$ (111,813)	\$ 2,651	\$ 114,464	N/M

The decrease in consolidated net income (loss) for the three-month period ended November 30, 2010 as compared to the same period of the prior year mostly relates to change in the provision (benefit) for income taxes as discussed above. Excluding the \$4.8 million benefit related to the recapture of alternative minimum taxes paid in 2006 and 2007, consolidated net income for the three month period ended November 30, 2010 would have increased \$2.3 million.

The increase in consolidated net income (loss) for the nine-month period ended November 30, 2010 as compared to the same period of the prior year mostly relates to items recorded in the prior year that were nonrecurring in the current year. These items include an impairment loss of \$174.6 million and a restructuring charge of \$3.4 million, partially offset by a gain on debt extinguishment \$31.4 million, all net of tax.

### Liquidity and Capital Resources

Our primary sources of liquidity are cash provided by operations and cash available through revolver borrowings under the Credit Agreement. Our primary uses of capital have been historically, and are expected to continue to be, capital expenditures, working capital, debt service requirements and the repayment of debt. We also have used capital to fund acquisitions and repurchase our common stock.

At November 30, 2010, we had cash and cash equivalents of \$12.6 million and net working capital of \$30.4 million. At February 28, 2010, we had cash and cash equivalents of \$6.8 million and net working capital of \$17.7 million. Cash and cash equivalents held at various European banking institutions at February 28, 2010 and November 30, 2010 was \$3.6 million and \$5.5 million, respectively. Of the \$5.5 million of cash held at various European banking institutions at November 30 31, 2010, approximately \$0.7 million relates to Slager and is classified as current assets – discontinued operations in the accompanying condensed consolidated balance sheets. Our ability to access our share of these international cash balances (net of noncontrolling interests) is limited by country-specific statutory requirements.

The Company has two separate interest rate exchange agreements, whereby the Company pays a fixed rate on \$175 million of notional principal in exchange for a variable rate on the same amount of notional principal based on the three-month LIBOR. The counterparty to these agreements is Deutsche Bank.

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the filing of this Form 10-Q, management believes the Company can meet its liquidity needs through the end of fiscal year 2011 with cash and cash equivalents on hand, projected cash flows from operations and, to the extent necessary, through its borrowing capacity under the Credit Agreement, which was approximately \$11.4 million at November 30, 2010. Based on these projections, management also believes the Company will be in compliance with its debt covenants through the end of fiscal year 2011. However, unforeseen circumstances, such as those described in Item 1A “Risk Factors” on our Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, for the year ended February 28, 2010, may negatively impact the Company’s operations beyond those assumed in its projections. Management considered the risks that the current economic conditions may have on its liquidity projections, as well as the Company’s ability to meet its debt covenant requirements. If economic conditions deteriorate to an extent that we could not meet our liquidity needs or it appears that noncompliance with debt covenants is likely to result, the Company would implement several

remedial measures, which could include further operating cost and capital expenditure reductions, ceasing to operate certain unprofitable properties and the sale of assets. If these measures are not successful in maintaining compliance with our debt covenants, the Company would attempt to negotiate for relief through a further amendment with its lenders or waivers of covenant noncompliance, which could result in higher interest costs, additional fees and reduced borrowing limits. There is no assurance that the Company would be successful in obtaining relief from its debt covenant requirements in these circumstances. Failure to comply with our debt covenants and a corresponding failure to negotiate a favorable amendment or waivers with the Company's lenders could result in the acceleration of the maturity of all the Company's outstanding debt, which would have a material adverse effect on the Company's business and financial position.

Under the terms of the Second Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement, the Company must maintain a minimum amount of trailing twelve-month Consolidated EBITDA (as defined in the Credit Agreement) and at least \$5 million in Liquidity (as defined in the Credit Agreement) through September 1, 2011. Subsequent to September 1, 2011, the Company must meet the Total Leverage Ratio and the Fixed Charge Coverage Ratio financial covenants (each as defined in the Credit Agreement). The Credit Agreement also contains certain other non-financial covenants. We were in compliance with all financial and non-financial covenants as of November 30, 2010. Our Liquidity (as defined in the Credit Agreement) as of November 30, 2010 was \$16.4 million. Our minimum Consolidated EBITDA (as defined in the Credit Agreement) requirement and actual amount as of November 30, 2010 was as follows:

	<b>As of November 30, 2010</b>	
	<b>Covenant Requirement</b>	<b>Actual Trailing Twelve-Month Consolidated EBITDA<sup>1</sup></b>
Trailing Twelve-month Consolidated EBITDA <sup>1</sup>	\$ 22,700	\$ 26,322

<sup>1</sup> (as defined in the Credit Agreement)

While the Company is currently in compliance with all of the financial and non-financial covenants in the Second Amendment to its Credit Facility, the suspension of certain covenants provided by the Second Amendment expires on September 1, 2011. After September 1, 2011, the Company must maintain compliance with the original financial and non-financial covenants in its Credit Facility, which are more restrictive. Absent asset sales, which the Company is actively pursuing, the Company believes it is unlikely it will be able to maintain compliance with the financial covenants after September 1, 2011. Non-compliance with the financial covenants would be considered an event of default under our Credit Agreement, giving our lenders the right, among other things, to accelerate the maturity of our Credit Agreement indebtedness. The terms of the Credit Agreement also state that the issuance of an opinion by our independent auditors that is modified to express substantial doubt about Emmis' ability to continue as a going concern is an event of default under the Credit Agreement. Our ability to maintain compliance with our financial and non-financial covenants throughout fiscal 2012 and the adequacy of our plans to address the impact of non-compliance on our liquidity will be factors considered by our auditors in rendering their opinion on our financial statements for the year ending February 28, 2011, which are expected to be issued in May 2011.

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

### **Operating Activities**

Cash provided by operating activities was \$7.8 million for the nine-month period ended November 30, 2010 versus \$24.4 million in the same period of the prior year. The decrease in cash flows from operating activities is

mostly due to the receipt of \$10.2 million related to our national representation performance guarantee and the receipt of \$14.0 million for the first two years of LMA fees for KXOS-FM (formerly KMVN-FM), both of which were nonrecurring events in the nine months ended November 30, 2009, partially offset by other working capital fluctuations.

### **Investing Activities**

Cash used in investing activities was \$2.5 million for the nine-month period ended November 30, 2010 versus cash provided by investing activities of \$1.7 million in the same period of the prior year. During the nine-month period ended November 30, 2009, the Company completed the sale of its airplane and received \$9.0 million in proceeds. This was partially offset by the \$4.9 million purchase of our noncontrolling partners' ownership interests in two of our Bulgarian radio networks and \$2.3 million of capital expenditures. During the nine-month period ended November 30, 2010, the Company's main investing activity was capital expenditures, which totaled \$2.5 million. Investing activities generally include capital expenditures and business acquisitions and dispositions.

We expect capital expenditures related to continuing operations to be approximately \$5.0 million in the current fiscal year, compared to \$4.8 million in fiscal 2010. We expect that future requirements for capital expenditures will include capital expenditures incurred during the ordinary course of business. We expect to fund such capital expenditures with cash generated from operating activities and borrowings under our credit facility.

### **Financing Activities**

Cash provided by financing activities was \$0.5 million for the nine-month period ended November 30, 2010, versus cash used in financing activities of \$54.4 million in the same period of the prior year. Cash used in financing activities in the nine-month period ended November 30, 2009 primarily relates to the net debt repayments of \$44.5 million under our Credit Agreement, \$4.8 million of debt related costs, and \$5.0 million used to pay distributions to noncontrolling interests (\$2.0 million of which is related to Slager and thus classified as discontinued operations). Cash provided by financing activities for the nine-month period ended November 30, 2010 primarily relates to the \$3.5 million of net borrowings of debt under our Credit Agreement partially offset by \$2.8 million used to pay cash distributions to noncontrolling interests (\$0.4 million of which is related to Slager and thus classified as discontinued operations). Our financing activities for the nine-month period ended November 30, 2009, were funded by cash generated by operating activities, remaining cash from our sale of WVUE-TV in July 2008 and the sale of our corporate airplane.

As of November 30, 2010, Emmis had \$344.6 million of borrowings under its senior credit facility (\$3.4 million current and \$341.2 million long-term) and \$140.5 million of Preferred Stock outstanding. All outstanding amounts under our credit facility bear interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. As of November 30, 2010, our weighted average borrowing rate under our credit facility including our interest rate exchange agreements was approximately 5.6%.

The debt service requirements of Emmis over the next twelve-month period (excluding interest under our credit facility) are expected to be \$3.4 million, solely comprised of repayments of term notes under our Credit Agreement. Although the Credit Agreement bears interest at variable rates, we have two separate interest rate exchange agreements that effectively fix the rate we will pay on \$175 million of outstanding debt outstanding under our Credit Agreement. Interest that Emmis will be required to pay related to the interest rate exchange agreements (plus the applicable margin of 4% under the Credit Agreement) through their maturity in March 2011 is expected to be \$3.8 million. Interest to be paid on Credit Agreement debt outstanding that is in excess of our interest rate exchange agreements is not presently determinable given that the Credit Agreement bears interest at variable rates.

The terms of Emmis' Preferred Stock provide for a quarterly dividend payment of \$.78125 per share on each

January 15, April 15, July 15 and October 15. Emmis has not declared a preferred stock dividend since October 15, 2008. As of November 30, 2010, cumulative preferred dividends in arrears total \$18.5 million. Failure to pay the dividend is not a default under the terms of the Preferred Stock. However, since dividends have remained unpaid for more than six quarters, the holders of the Preferred Stock are entitled to elect two persons to our board of directors. No director nominees were submitted by holders of the Preferred Stock for our last annual meeting, so those two director seats remain open. The Second Amendment to our Credit Agreement prohibits the Company from paying dividends on the Preferred Stock during the Suspension Period (as defined in the Credit Agreement). Payment of future preferred stock dividends is at the discretion of the Company's Board of Directors.

At January 6, 2011, we had \$10.4 million available for additional borrowing under our credit facility, which is net of \$0.6 million in outstanding letters of credit. Availability under the credit facility depends upon our continued compliance with certain operating covenants and financial ratios. Emmis was in compliance with these covenants as of November 30, 2010. As part of our business strategy, we continually evaluate potential acquisitions, dispositions and swaps of radio stations, publishing properties and other businesses, striving to maintain a portfolio that we believe leverages our strengths and holds promise for long-term appreciation in value. If we elect to take advantage of future acquisition opportunities, we may incur additional debt or issue additional equity or debt securities, depending on market conditions and other factors. In addition, Emmis currently has the option, but not the obligation, to purchase our 49.9% partner's entire interest in the Austin radio partnership based on an 18-multiple of trailing 12-month cash flow. The option, which does not expire, has not been exercised.

## **Intangibles**

Approximately 73% of our total assets consisted of intangible assets, such as FCC broadcast licenses, foreign broadcasting licenses, and goodwill, the value of which depends significantly upon the operational results of our businesses. In the case of our U.S. radio stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective periods, and we expect that all FCC licenses will continue to be renewed in the future. Our foreign broadcasting licenses expire during periods ranging from December 2012 to February 2013. We will need to submit applications to extend our foreign licenses upon their expiration to continue our broadcast operations in these countries. While we expect to actively seek renewal of our foreign licenses, both of the countries in which we operate do not have the regulatory framework or history that we have with respect to license renewals in the United States. This makes the risk of non-renewal (or of renewal on less favorable terms) of foreign licenses greater than for United States licenses.

## **Regulatory, Legal and Other Matters**

### *Shareholder Litigation*

In connection with the Going Private Transaction, a number of class actions were filed against various combinations of Emmis, JS Acquisition, Alden, and members of the board of directors of Emmis.

As previously discussed, on September 9, 2010, this Going Private Transaction was effectively terminated and the lawsuits filed against various combinations of Emmis, JS Acquisition, Alden, and members of the board of directors of Emmis were subsequently dismissed. On September 15, 2010, Jeff Smulyan and JS Acquisition commenced a lawsuit against Alden in Indiana State Court. On December 24, 2010, Emmis, JS Acquisition and Bose McKinney and Evans LLP ("Bose"), a business law firm, entered into an agreement whereby Bose would coordinate the prosecution of certain litigation by JS Acquisition against Alden. Under the terms of the agreement, Bose is representing both Emmis and JS Acquisition in connection with the litigation.

### *Other Litigation and Regulatory Proceedings*

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

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

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

### **Item 4. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, the Company evaluated the effectiveness of the design and operation of its “disclosure controls and procedures” (“Disclosure Controls”). This evaluation (the “Controls Evaluation”) was performed under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”).

Based upon the Controls Evaluation, our CEO and CFO concluded that as of November 30, 2010 our Disclosure Controls are effective to provide reasonable assurance that information relating to Emmis Communications Corporation and Subsidiaries that is required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control over Financial Reporting

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

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

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 3. Defaults Upon Senior Securities**

The terms of the Company's 6.25% Series A Cumulative Convertible Preferred Stock provide for a quarterly dividend payment of \$.78125 per share on each January 15, April 15, July 15 and October 15. Emmis has not declared a preferred stock dividend since October 15, 2008. As of November 30, 2010, cumulative preferred dividends in arrears total \$18.5 million. Failure to pay the dividend is not a default under the terms of the preferred stock or our senior credit facility. However, since dividends have remained unpaid for more than six quarters, the holders of the preferred stock are entitled to elect two persons to our board of directors. No director nominees were submitted by holders of the Preferred Stock for our last annual meeting, so those two director seats remain open.

### **Item 6. Exhibits**

(a) Exhibits.

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

- 2.1 Agreement and Plan of Merger, dated May 25, 2010, by and among the Company, JS Parent and JS Acquisition, incorporated by reference from Exhibit 2.1 to the Company's Form 8-K filed May 27, 2010.
- 3.1 Second Amended and Restated Articles of Incorporation of Emmis Communications Corporation, as amended effective June 13, 2005 incorporated by reference from Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended February 28, 2006.
- 3.2 Second Amended and Restated Bylaws of Emmis Communications Corporation incorporated by reference from Exhibit 3.2 to the Company's Form 8-K filed May 27, 2010.
- 31.1 Certification of Principal Executive Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act.\*
- 31.2 Certification of Principal Financial Officer of Emmis Communications Corporation pursuant to Rule 13a-14(a) under the Exchange Act.\*
- 32.1 Section 1350 Certification of Principal Executive Officer of Emmis Communications Corporation.\*
- 32.2 Section 1350 Certification of Principal Financial Officer of Emmis Communications Corporation.\*

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\* Filed with this report.

## SIGNATURES

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

EMMIS COMMUNICATIONS  
CORPORATION

Date: January 11, 2011

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