FORM 8-K

Current report filing

Filing Date: **2002-05-14** | Period of Report: **2002-05-13**
SEC Accession No. 0001141732-02-000006

(HTML Version on secdatabase.com)

FILER

EMMIS OPERATING CO CIK:**1141732**| IRS No.: **352141064** | State of Incorp.:**IN** | Fiscal Year End: **0228** Type: **8-K** | Act: **34** | File No.: **333-62172-13** | Film No.: **02646092** SIC: **4832** Radio broadcasting stations	Mailing Address *C/O EMMIS COMMUNICATIONS* *40 MONUMENT CIRCLE 7TH FLOOR* *INDIANAPOLIS IN 46204*	Business Address *C/O EMMIS COMMUNICATIONS* *40 MONUMENT CIRCLE 7TH FLOOR* *INDIANAPOLIS IN 46204* *3172660100*

RISK FACTORS

The following discussion pertains to Emmis Communications Corporation ("ECC") and its subsidiaries (collectively, "Emmis" or the "Company") and to Emmis Operating Company and its subsidiaries (collectively "EOC"). Unless otherwise noted, all disclosures contained in this Exhibit to Form 8-K apply to Emmis and EOC.

Forward-looking Statements

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

Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important facts in various cautionary statements in this report that we believe could cause our actual results to differ materially from forward-looking statements that we make. These include, but are not limited to, the following:

- material adverse changes in economic conditions in the markets of our company;
- the ability of our stations and magazines to attract and retain advertisers;
- the ability of our stations to attract programming and our magazines to attract writers and photographers;
- uncertainty as to the ability of our stations to increase or sustain audience share for their programs and our magazines to increase or sustain subscriber demand;
- competition from other media and the impact of significant competition for advertising revenues from other media;
- future regulatory actions and conditions in the operating areas of our company;
- the level of our capital expenditures and whether our programming and other expenses increase at a rate faster than expected;
- financial community and rating agency perceptions of our business, operations and financial condition and the industry in which we operate;
- the effects of terrorist attacks, political instability, war and other significant events;
- whether pending transactions, if any, are completed on the terms and at the times set forth, if at all;
- other risks and uncertainties inherent in the radio and television broadcasting and magazine publishing businesses.

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

Risks Relating to Our Company

Decreased spending by advertisers or a decrease in our market ratings or market share can adversely affect our advertising revenues.

We believe that advertising is a discretionary business expense. Spending on advertising tends to decline disproportionately during an economic recession or downturn as compared to other types of business spending. Consequently, the current downturn in the United States economy has had an adverse effect on our advertising revenue and, therefore, our results of operations. A recession or a further downturn in the United States economy or in the economy of any individual geographic market, particularly a major market, in which we own or operate stations or magazines, would have a significant effect on us. The overall weakness of the United States economy resulted in an economic downturn in New York, and the terrorist attacks of September 11, 2001 exacerbated the downturn. The slow New York economy has had an adverse effect on the revenues of our New York stations, which accounted for approximately 14% of our net revenue for the fiscal year ended February 28, 2002.

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

In addition, in the competitive broadcasting industry, the success of each of our radio and television stations is primarily dependent upon its share of the overall advertising revenue within its market. Although we believe that each of our stations can compete effectively in its broadcast area, our stations may not be able to maintain or increase their current audience ratings or market shares, and advertisers may decrease the amount they spend on advertising.

Our advertising revenue will suffer if any of our stations cannot maintain its audience ratings or market share. Shifts in population, demographics, audience tastes and other factors beyond our control could cause us to lose market share. Our stations also compete for audiences and advertising revenues directly with other radio and television stations, and some of the owners of those competing stations have greater resources than we do. For example, recently, a competitor changed the format of one of its FM radio stations in New York to compete directly with WQHT-FM, one of our most profitable stations, and we expect that the increased competition will have a negative effect on that station's broadcast cash flow. In addition, our stations also compete with other media such as cable television, newspapers, magazines, direct mail, compact discs, music videos, the Internet and outdoor advertising.

In addition, since political advertising at times accounts for a significant portion of our advertising revenues, normal election cycles may cause our revenues to fluctuate. Changes in government limitations on spending or fundraising for campaign advertisements may also have a negative effect on our earnings derived from political advertising.

Our substantial indebtedness could adversely affect our financial health.

We have a significant amount of indebtedness. As of February 28, 2002, on a pro forma basis after giving effect to our April 2002 issuance of 4.6 million shares of our Class A common stock, the sale of our Denver stations and the application of the proceeds from those transactions, our total indebtedness was approximately $1,237.7 million, and our shareholders' equity was approximately $855.8 million.

Our substantial indebtedness could have important consequences to you. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- result in higher interest expense in the event of increases in interest rates because some of our debt is at variable rates of interest;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our credit facility and our other debt instruments, our ability to borrow additional funds. Failing to comply with those covenants could result in an event of default, which if not cured or waived, could have a material adverse effect on our businesses.

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

Our credit facility and the indentures for our senior discount notes and our senior subordinated notes impose significant operating and financial restrictions on us and our subsidiaries. These restrictions significantly limit or prohibit, among other things, our ability and the ability of our subsidiaries to incur additional indebtedness, issue preferred stock, incur liens, pay dividends, enter into asset sale transactions, merge or consolidate with another company, dispose of all or substantially all of our assets or make certain other payments or investments.

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

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

Our ability to make payments on and to refinance our indebtedness, to pay dividends on or redeem our preferred stock and to fund capital expenditures will depend on our ability to generate cash in the future. This ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our businesses might not generate sufficient cash flow from operations. We might not be able to complete future offerings, and future borrowings might not be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Furthermore, the broadcasting and publishing industries are cyclical, and our cash flow from operations may fluctuate greatly from quarter to quarter and year to year.

To continue to grow our business, we will require significant additional capital.

The continued development, growth and operation of our businesses will require substantial capital. In particular, additional acquisitions will require large amounts of capital. We intend to fund our growth, including acquisitions, if any, with cash generated from operations, borrowings under our credit facility, and proceeds from future issuances of debt and equity both public and private. Our ability to raise additional debt or equity financing is subject to market conditions, our financial condition and other factors. If we cannot obtain financing on acceptable terms when needed, our results of operations and financial condition could be adversely impacted.

Further terrorist attacks or other large-scale disasters could have a material adverse effect on our business.

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

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

Our current independent public accountant is Arthur Andersen LLP. Our access to capital markets and timely financial reporting may be impaired, and we may have to incur significant additional costs if we are required to engage a new independent public accounting firm.

On March 14, 2002, our independent public accountant since 1993, Arthur Andersen LLP, was indicted on federal obstruction of justice charges arising from the federal government's investigation of Enron Corp. Andersen has indicated publicly that it intends to contest vigorously the indictment.

The SEC, in a recent release, has stated it will continue to accept audited financial statements and interim financial statements that are audited or reviewed by Andersen, but under that release, we will be required to make additional representations to the SEC regarding the Andersen audit or review process. Those representations are to be based on representations made by Andersen to us.

Our access to the capital markets and our ability to make timely SEC filings could be impaired if the SEC ceases accepting financial statements audited by Andersen, if Andersen becomes unable to make the required representations to us or if for any other reason Andersen is unable to perform required audit-related services for us. In such a case, we would promptly seek to engage a new independent public accounting firm or take such other actions as may be necessary to enable us to maintain access to the capital markets and to timely file our financial reports. However, we may not be able to engage a new firm in a timely fashion, and to do so might require us to pay significant additional professional fees.

Our ability to grow through acquisitions may be limited by competition for suitable properties or other factors we cannot control.

Despite limitations imposed by our indebtedness and the general state of the United States economy, we intend to selectively pursue acquisitions of radio and television stations and publishing properties, when appropriate, in order to grow. To be successful with this strategy, we must be effective at quickly evaluating markets, obtaining financing to buy stations and publishing properties on satisfactory terms and obtaining the necessary regulatory approvals, including approvals of the FCC and the Department of Justice. We also must accomplish these tasks at reasonable costs. The radio industry in particular has been a rapidly consolidating industry. In general, we compete with many other buyers for radio and television stations as well as publishing properties. These other buyers may be larger and have more resources. We cannot predict whether we will be successful in buying stations or publishing properties, or whether we will be successful with any station or publishing property we acquire. Our strategy is generally to buy underperforming properties and use our experience to improve their performance. Thus, the benefits resulting from the properties we buy may not manifest themselves immediately, and we may need to pay large initial costs for these improvements.

We may not be able to integrate acquired stations successfully, which could affect our financial performance.

Our ability to operate our company effectively depends, in part, on our success in integrating acquired stations into our operations. These efforts may impose significant strains on our management and financial resources. The pursuit and integration of acquired stations will require substantial attention from our management, and will limit the amount of time they can devote to other important matters. Successful integration of acquired stations will depend primarily on our ability to manage our combined operations. We might not be able to successfully integrate acquired stations into our business plan. If we fail to do so, if we fail to manage our growth or if we encounter unexpected difficulties during expansion, it could have a negative impact on the performance of acquired stations as well as on our company as a whole.

A recently adopted change in accounting principles that affects the accounting treatment of goodwill and FCC licenses could cause future losses due to asset impairment.

As of February 28, 2002, on a pro forma basis, giving effect to the sale of our Denver stations, we had $1,953.3 million of unamortized intangible assets, including goodwill and FCC radio and television licenses, on our balance sheet, which represents the excess of the total purchase price of our acquisitions over the identifiable net assets acquired. At February 28, 2002, on a pro forma basis, giving effect to the sale of our Denver stations, these intangible assets represented approximately 78% of our total assets.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" that requires companies to cease amortizing goodwill and certain other indefinite-lived intangible assets, including broadcast licenses. Under SFAS 142, goodwill and some indefinite-lived intangibles will not be amortized into results of operations, but instead the recorded value of certain indefinite-lived intangibles, including broadcast licenses, will be tested for impairment at least annually, with impairment being measured as the excess of the asset's carrying value over its fair value. Goodwill will also be tested for impairment at least annually. In addition, goodwill and intangible assets will be tested more often for impairment as circumstances warrant. Intangible assets that have finite useful lives will continue to be amortized over their useful lives and will be measured for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." After initial adoption, any impairment losses under SFAS 142 or 144 will be recorded as operating expenses.

We adopted SFAS 142 and began our impairment review on March 1, 2002. We have engaged an independent appraiser to conduct valuations of our indefinite-lived intangible assets and expect to complete our review after the valuations are completed at the end of May 2002. As of February 28, 2002, we had net unamortized goodwill and broadcast licenses in the amount of $175.2 million and $1,878.3 million, respectively. The adoption of SFAS 142 will eliminate our amortization of goodwill and indefinite-lived intangibles, which was approximately $41.8 million and $61.2 million in the years ended February 28, 2001 and 2002, respectively. While this expense will no longer be reflected on future financial statements, it remains deductible for federal income tax purposes. We expect that our impairment review, once it is completed, will result in write-downs of some of our goodwill and indefinite-lived intangibles, but we cannot currently determine the amount of the write-downs. However, we believe the write-down may be material. Upon adoption, any transitional impairment loss recognized under SFAS 142 will be reported as the cumulative effect of a change of accounting principle in our consolidated statements of operations. After initial adoption, any impairment losses under SFAS 142 or 144 will be recorded as operating expenses.

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

As of May 5, 2002, our Chairman, Chief Executive Officer and President, Jeffrey H. Smulyan beneficially owned shares representing approximately 54.3% of the outstanding combined voting power of all classes of our common stock. He, therefore, would hold a majority of the outstanding combined voting power of all classes of our common stock. Accordingly, Mr. Smulyan is able to and will continue to be able to, control the outcome of most matters submitted to a vote of our shareholders, including the election of a majority of the directors.

Our need to comply with comprehensive, complex and sometimes unpredictable federal regulations could have an adverse effect on our businesses.

We are dependent on licenses from the FCC, which regulates the radio and television broadcasting industries in the United States. The radio and television broadcasting industries in the United States are subject to extensive and changing regulation by the FCC. Among other things, the FCC is responsible for the following:

- assigning frequency bands for broadcasting;
- determining the particular frequencies, locations and operating power of stations;
- issuing, renewing, revoking and modifying station licenses;
- determining whether to approve changes in ownership or control of station licenses;
- regulating equipment used by stations; and
- adopting and implementing regulations and policies that directly affect the ownership, operation, programming and employment practices of stations.

The FCC has the power to impose penalties for violation of its rules or the applicable statutes. While in the vast majority of cases licenses are renewed by the FCC, we cannot be sure that any of our United States stations' licenses will be renewed at their expiration date. Even if our licenses are renewed, we cannot be sure that the FCC will not impose conditions or qualifications that could cause problems in our businesses.

The FCC regulations and policies also affect our growth strategy because the FCC has specific regulations and policies about the number of stations, including radio and television stations, and daily newspapers that an entity may own in any geographic area. As a result of these rules, we may not be able to acquire more properties in some markets or on the other hand, we may have to sell some of our properties in a particular market. For example, as a result of the Lee Enterprises acquisition, we own two "top 4" rated television stations in the Honolulu market, which is not permitted by FCC rules. The FCC granted us a waiver permitting temporary ownership of both stations because of the difficulty we have encountered in accomplishing divestiture of one station so as to come into compliance with FCC ownership rules. We have filed a request for a an extension to and including April 1, 2003. That request has been opposed by a Honolulu broadcaster, and the FCC has required us to file additional information concerning our divestiture efforts, which we have done. The FCC has extended our waiver to and including July 1, 2002, pending its review of the information we have submitted. In addition to responding to the FCC's request for information, we have filed a request for interim relief, asking that the divestiture requirement be stayed, pending review of the duopoly rule that will be undertaken pursuant to the court remand described above and the 2002 biennial review. We cannot predict whether either the extension request or the request for interim relief will be granted.

In addition, we may face increased FCC scrutiny and additional regulatory burdens if our significant shareholder, Mr. Smulyan, is deemed to no longer control us. Mr. Smulyan's voting power could in the future be diluted. If that were to occur, we may need to seek prior FCC approval for a change of control that may be deemed to occur under FCC regulations once a significant shareholder ceases to control 50% of the combined voting power of a broadcasting company and we may need to seek additional approvals from the FCC prior to any further reduction in Mr. Smulyan's voting power.

Under prior FCC policy, because Mr. Smulyan controls a majority of the voting power of our common stock, the media holdings of our minority shareholders were generally not attributed to us. However, under a recent change in that policy, notwithstanding Mr. Smulyan's majority control, the media interests of minority shareholders holding voting interests of 5% or more--20% or more in the case of certain categories of institutional investors--acquired after December 13, 2000, will be attributed to us. This change in policy has been stayed temporarily by the FCC pending further review as a result of a court decision reinstating the former policy of non-attribution in the context of cable ownership. That review may lead to permanent reinstatement of the new policy for cable and for broadcast ownership as well. Moreover, if Mr. Smulyan's voting power falls below 50%, minority interests held prior to the above date, which are presently "grandfathered," would lose their protected status. This loss could materially and adversely affect our business as a result of the increased cost of regulatory compliance and monitoring activities, the increased obstacles to our growth strategy or the mandatory divestment of our properties.

FCC regulations also limit the ability of non-U.S. persons to own our capital stock and to participate in our affairs, which could limit our ability to raise equity. Our articles of incorporation contain provisions which place restrictions on the ownership, voting and transfer of our capital stock in accordance with the law.

Finally, a number of federal rules governing broadcasting have changed significantly in recent years and additional changes may occur, particularly with respect to the rules governing digital television, multiple ownership and attribution. We cannot predict the effect that these regulatory changes may ultimately have on our operations.

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

On February 19, 2002, a federal court of appeals ordered the FCC to reconsider its rule that imposes a national "cap" on the number of television stations that can be owned nationwide by an entity or affiliated group. The court found that the FCC had not articulated a sufficient basis for the national limit. Unless the court's decision is modified or reversed as a result of possible further proceedings, the FCC will be required to determine whether the cap should be eliminated, modified, or retained in its current form. If the national ownership limit is liberalized or abolished, television operators that are currently at the limit, including the CBS and Fox networks, will be able to acquire additional stations, which may give them a competitive advantage over us, since they have much greater financial and other resources than we have. In addition, the networks' ability to acquire additional stations could give them "leverage" over their affiliates on issues such as compensation and program clearance, in part because of the risk that a network facing an uncooperative affiliate could acquire a station in the market and terminate its agreement with that affiliate.

The court decision described above also invalidated an FCC rule that prohibited common ownership of a broadcast station and a cable television system in the same market. Consequently, unless that decision is modified or reversed as a result of possible further proceedings, television broadcasters will be able to own and operate cable television systems in their markets, and vice-versa. The invalidation of that restriction could increase the amount of competition that our television stations face.

FCC rules also prohibit ownership of a daily newspaper in combination with a television or radio station in the same market. The FCC has initiated a proceeding looking toward elimination or liberalization of these rules. If common ownership of a newspaper and one or more TV or radio stations in the same market is permitted, entities that own such facilities in combination may have a competitive advantage over us because they can offer advertisers "packages" that include both print and broadcast advertisements.

If we are not able to obtain regulatory approval for future acquisitions, our growth may be impaired.

Although part of our growth strategy is the acquisition of additional radio and television stations, we may not be able to complete all the acquisitions that we agree to make. Station acquisitions are subject to the approval of the FCC and, potentially, other regulatory authorities. Also, the FCC sometimes undertakes review of transactions to determine whether they would result in excessive concentration, even where the transaction complies with the numerical ownership limits. Specifically, the staff has had a policy of "flagging" for closer scrutiny the anticompetitive impact of any transactions that will put one owner in a position to earn 50% or more of the market's radio advertising revenues or will result in the two largest owners receiving 70% or more of those revenues. The FCC recently initiated a proceeding to determine whether it should continue to consider market concentration issues when reviewing transactions; pending the outcome of that proceeding, the "flagging" policy will remain in effect.

Additionally, since the passage of the Telecommunications Act of 1996, the U.S. Department of Justice has become more involved in reviewing proposed acquisitions of radio stations and radio station networks. The Justice Department is particularly concerned when the proposed buyer already owns one or more radio stations in the market of the station it is seeking to buy. Recently, the Justice Department has challenged a number of radio broadcasting transactions. Some of those challenges ultimately resulted in consent decrees requiring, among other things, divestitures of certain stations. In general, the Justice Department has more closely scrutinized radio broadcasting acquisitions that result in local market shares in excess of 40% of radio advertising revenue.

Our business strategy and our ability to operate profitably depends on the continued services of our key employees, the loss of whom would materially adversely affect our business.

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

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

Our current and future operations are subject to certain risks that are unique to operating in a foreign country.

We currently own a 59.5% interest in a national radio station in Hungary and a 75% interest in a company with two radio stations in Argentina and, therefore, we are exposed to risks inherent in international business operations. We may pursue opportunities to buy additional broadcasting properties in Argentina and other foreign countries. The risks of doing business in foreign countries include the following:

- changing regulatory or taxation policies;
- currency exchange risks;
- changes in diplomatic relations or hostility from local populations;
- seizure of our property by the government, or restrictions on our ability to transfer our property or earnings out of the foreign country; and
- potential instability of foreign governments, which might result in losses against which we are not insured.

Instead of making a required license payment to the Hungarian government in November 2001, our Hungarian station requested a modification of the broadcast contract and ultimately filed suit in arbitration court seeking reformation of the contract and requesting that the payments be reduced. The Hungarian government then issued an order revoking our station's broadcast license for non-payment of the license fee, and we appealed the order in the Hungarian ordinary court. The Hungarian government has also filed an action seeking to liquidate our Hungarian broadcast company. We are vigorously prosecuting the actions in the arbitration court and ordinary court and are vigorously opposing the action seeking liquidation. However, we cannot predict the outcome of these actions. We do not plan to continue to operate the station under the present fee arrangement. For the fiscal year ended February 28, 2002, our Hungarian station accounted for less than 1% of our broadcast cash flow and approximately 1% of our total revenues.

Our operations in Argentina are subject to additional risks due to the political and economic instability that Argentina has experienced in recent months. The Argentine recession and currency weakness have negatively impacted our revenues from the two stations located there. Instability in the exchange rate between the Argentine peso and the U.S. dollar also creates additional uncertainty relating to our revenues from the two stations. For the fiscal year ended February 28, 2002, our Argentine stations accounted for less than 1% of our broadcast cash flow and approximately 2% of our total revenues.

Television programming costs may negatively impact our operating results.

One of our most significant operating cost components is television programming. We may be exposed in the future to increased programming costs which may adversely affect our operating results. Acquisitions of program rights are usually made two or three years in advance and may require multi-year commitments, making it difficult to accurately predict how a program will perform. In some instances, programs must be replaced before their costs have been fully amortized, resulting in write-offs that increase station operating costs.

Our television stations depend on affiliations with major networks that may be canceled or revoked by the networks.

All of our television stations are affiliated with a network. Under the affiliation agreements, the networks possess, under certain circumstances, the right to terminate the agreement without giving the station enough advance notice to implement a contingency plan. The affiliation agreements may not remain in place, and the networks may not continue to provide programming to affiliates on the same basis that currently exists. The non-renewal or termination of any of our stations' network affiliation agreements could have a material adverse effect on our operations.

The success of our television stations depends on the success of the network each station carries.

The ratings of each of the television networks, which is based in large part on their programming, vary from year to year, and this variation can significantly impact a station's revenues. The future success of any network or its programming is unpredictable.

We may not remain competitive if we do not respond to the rapid changes in technology, standards and services that characterize the radio, television and publishing industries.

Advances in technology may increase competition for household audiences and advertisers, and we may be unable to compete for advertising revenue. For example, the video compression techniques now under development for use with current cable television channels or direct broadcast satellites that do not carry local television signals are expected to reduce the bandwidth which is required for television signal transmission. These compression techniques, as well as other technological developments, are applicable to all video delivery systems, including over-the-air broadcasting, and have the potential to provide vastly expanded programming to highly targeted audiences. Reduction in the cost of creating additional channel capacity could lower entry barriers for new channels and encourage the development of increasingly specialized “niche“ programming. This ability to reach a very defined audience may alter the competitive dynamics for advertising expenditures. New radio technologies, such as satellite radio, may also increase competition for our radio stations. We are unable to predict the effect that technological changes will have on the radio or television broadcast industry or publishing industry or the future results of our operations.

The planned industry conversion to digital television could adversely affect our broadcast business.

All commercial television stations in the United States must start broadcasting in digital format by May 2002, unless the FCC extends that deadline on a station-by-station basis. Currently, four of our stations, KOIN-TV, WKCF-TV, WFTX-TV, and WALA-TV, broadcast in digital format. We have obtained six-month extensions of the digital broadcasting deadline for all of our other stations. If a station does not begin digital broadcasting by the original or any extended deadline, it will be required to cease operation when stations are required to abandon analog broadcasts. We cannot determine definitively how the conversion to digital broadcasting will affect our business for the following reasons:

- It will be expensive to convert from the current analog format to digital format.
- The digital technology will allow us to broadcast multiple channels, compared to only one today. We cannot predict whether or at what cost we will be able to obtain programming for the additional channels. Increased revenues from the additional channels may not make up for the conversion cost and additional programming expenses. Also, multiple channels programmed by other stations could increase competition in our markets.
- The FCC generally has made available much higher power allocations to digital stations that will replace stations on existing channels 2 through 13 than digital stations that will replace existing channels 14 through 69. This power disparity could put us at a disadvantage to our competitors that now operate on channels 2 through 13.
- In some cases, when we convert a station to digital television, the signal may not be received in as large a coverage area, or it may suffer from additional interference. Also, because of the technical standards adopted by the FCC, the digital signal may be subject to interference to a greater degree than current analog transmissions. As a result, viewers using antennas located inside their homes, as opposed to outdoor, roof-top antennas, may not receive a reliable signal. If viewers do not receive a high-quality, reliable signal from our stations, they may be encouraged to seek service from our competitors.
- While the FCC ruled that cable companies are required to carry the signals of digital-only television stations, the agency has tentatively concluded, subject to additional inquiry, that cable companies should not be required to carry both the analog and digital signals of stations during the transition period when stations will be broadcasting in both modes. If the FCC does not require stations to carry both the analog and digital signals, cable customers in our broadcast markets may not receive our digital signal, which could negatively impact our stations.

The new federal satellite television legislation could adversely affect our broadcast business.

In November 1999, Congress enacted the Satellite Home Viewer Improvement Act of 1999, or “SHVIA,“ which established a copyright licensing system for limited distribution of television network programming to DBS viewers and directed the FCC to initiate rulemaking proceedings to implement the new system. SHVIA also extended the current system of satellite distribution of distant network signals to households that do not receive an adequate signal from a local network affiliate, which allows satellite carriers to provide the signals of distant stations with the same network affiliation as our stations to television viewers in some areas of our television markets. As part of those rulemaking proceedings, the FCC established a market-by-market requirement for mandatory carriage of all local television stations, similar to that applicable to cable systems, for those markets in which a satellite carrier chooses to provide any local signal, beginning January 1, 2002.

The DBS industry challenged SHVIA and the FCC's DBS must-carry rules in federal court. In December 2001, a federal appeals court upheld the federal law that requires DBS carriers to carry the signals of all local television stations in markets where they elect to carry any local signals. Although DBS operators have been required since January 1, 2002 to carry all local television stations electing must-carry in the local markets the operators currently serve, DBS interests have filed a petition with the United States Supreme Court seeking review of these rules.

Fluctuations in the market price of our Class A common stock may make it more difficult for us to raise capital.

The market price of our Class A common stock is extremely volatile and has fluctuated over a wide range. The fluctuations may impair our ability to raise capital by offering equity securities. The market price may continue to fluctuate significantly in response to various factors, including:

- market conditions in the industry;
- announcements or actions by competitors;
- low trading volume;
- sales of large amounts of our Class A common stock in the public market or the perception that such sales could occur;
- quarterly variations in operating results or growth rates;
- changes in estimates by securities analysts;
- regulatory and judicial actions; and
- general economic conditions.

Future sales of common stock could lower our stock price.

Several shareholders own significant amounts of our common stock. If existing shareholders decide to sell large amounts of our stock, our stock price could fall. Even the market's perception that this might occur could lower our stock price.

We have not paid and do not intend to pay dividends, and therefore you may not realize any benefit of your investment without selling your stock.

We have never declared or paid any dividends on our common stock. In addition, the payment of dividends in cash or in certain of our securities is currently prohibited by our credit facility and restricted by the indentures relating to our senior discount notes and our senior subordinated notes. We intend to retain any earnings to support the growth and development in our business, and we do not intend to pay cash dividends at any time in the foreseeable future.

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: May 13, 2002

By: /s/ WALTER Z. BERGER

Walter Z. Berger
Executive Vice President
(Authorized Corporate Officer),
Chief Financial Officer and
Treasurer