

MEREDITH CORP
Form 10-Q
October 29, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2009**

Commission file number 1 5128

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

Iowa 42 0410230
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

1716 Locust Street, Des Moines, Iowa 50309 3023
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(515) 284 3000**

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 (Section 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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b 2 of the Exchange Act. (Check one):

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

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Shares of stock outstanding at September 30, 2009	
Common shares	36,143,572
Class B shares	9,129,702
Total common and Class B shares	45,273,274

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Meredith Corporation and Subsidiaries**Condensed Consolidated Balance Sheets**

	(Unaudited) September 30, 2009	June 30, 2009
Assets		
(In thousands)		
Current assets		
Cash and cash equivalents	\$ 14,259	\$ 27,910
Accounts receivable, net	211,802	192,367
Inventories	29,592	28,151
Current portion of subscription acquisition costs	54,466	60,017
Current portion of broadcast rights	17,014	8,297
Other current assets	19,293	23,398
Total current assets	346,426	340,140
Property, plant, and equipment	449,892	444,904
Less accumulated depreciation	(257,277)	(253,597)
Net property, plant, and equipment	192,615	191,307
Subscription acquisition costs	64,274	63,444
Broadcast rights	5,429	4,545
Other assets	46,269	45,907
Intangible assets, net	559,233	561,581
Goodwill	462,379	462,379
Total assets	\$ 1,676,625	\$ 1,669,303
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 75,000	\$—
Current portion of long-term broadcast rights payable	19,615	10,560
Accounts payable	84,455	86,381
Accrued expenses and other liabilities	90,439	81,544
Current portion of unearned subscription revenues	162,640	170,731
Total current liabilities	432,149	349,216
Long-term debt	285,000	380,000
Long-term broadcast rights payable	12,956	11,851
Unearned subscription revenues	146,092	148,393
Deferred income taxes	69,273	64,322
Other noncurrent liabilities	108,992	106,138

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Total liabilities	1,054,462	1,059,920
Shareholders' equity		
Series preferred stock	—	—
Common stock	36,144	35,934
Class B stock	9,130	9,133
Additional paid-in capital	57,812	53,938
Retained earnings	550,138	542,006
Accumulated other comprehensive loss	(31,061)	(31,628)
Total shareholders' equity	622,163	609,383
Total liabilities and shareholders' equity	\$ 1,676,625	\$ 1,669,303

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries**Condensed Consolidated Statements of Earnings (Unaudited)**

Three Months Ended September 30, (In thousands except per share data)	2009	2008
Revenues		
Advertising	\$ 191,816	\$ 211,826
Circulation	69,879	71,413
All other	70,720	80,831
Total revenues	332,415	364,070
Operating expenses		
Production, distribution, and editorial	151,093	170,111
Selling, general, and administrative	139,637	144,952
Depreciation and amortization	10,103	10,856
Total operating expenses	300,833	325,919
Income from operations	31,582	38,151
Interest income	10	120
Interest expense	(5,041)	(5,434)
Earnings from continuing operations before income taxes	26,551	32,837
Income taxes	8,210	13,769
Earnings from continuing operations	18,341	19,068
Loss from discontinued operations, net of taxes	—	(431)
Net earnings	\$ 18,341	\$ 18,637
Basic earnings per share		
Earnings from continuing operations	\$ 0.41	\$ 0.42
Discontinued operations	—	(0.01)
Basic earnings per share	\$ 0.41	\$ 0.41
Basic average shares outstanding	45,158	45,241
Diluted earnings per share		
Earnings from continuing operations	\$ 0.40	\$ 0.42
Discontinued operations	—	(0.01)
Diluted earnings per share	\$ 0.40	\$ 0.41
Diluted average shares outstanding	45,317	45,368
Dividends paid per share	\$ 0.225	\$ 0.215

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries**Consolidated Statements of Shareholders' Equity (Unaudited)**

(In thousands except per share data)	Common Stock - \$1 par value	Class B Stock - \$1 par value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2009	\$35,934	\$9,133	\$53,938	\$542,006	\$(31,628)	\$609,383
Net earnings	—	—	—	18,341	—	18,341
Other comprehensive income, net	—	—	—	—	567	567
Total comprehensive income						18,908
Share-based incentive plan transactions	208	—	505	—	—	713
Purchases of Company stock	—	(1)	(17)	—	—	(18)
Share-based compensation	—	—	4,112	—	—	4,112
Conversion of Class B to common stock	2	(2)	—	—	—	—
Dividends paid, 22.5 cents per share						
Common stock	—	—	—	(8,155)	—	(8,155)
Class B stock	—	—	—	(2,054)	—	(2,054)
Tax benefit from incentive plans	—	—	(726)	—	—	(726)
Balance at September 30, 2009	\$36,144	\$9,130	\$57,812	\$550,138	\$(31,061)	\$622,163

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries**Condensed Consolidated Statements of Cash Flows (Unaudited)**

Three Months Ended September 30, (In thousands)	2009	2008
Cash flows from operating activities		
Net earnings	\$18,341	\$18,637
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	7,755	8,236
Amortization	2,348	2,622
Share-based compensation	4,112	3,127
Deferred income taxes	5,560	7,005
Amortization of broadcast rights	6,164	7,006
Payments for broadcast rights	(5,605)	(6,199)
Gain from dispositions of assets	(962)	(1,228)
Excess tax benefits from share-based payments	(67)	(853)
Changes in assets and liabilities	(8,603)	6,196
Net cash provided by operating activities	29,043	44,549
Cash flows from investing activities		
Acquisitions of businesses	(5,124)	(726)
Additions to property, plant, and equipment	(8,101)	(9,608)
Proceeds from dispositions of assets	—	636
Net cash used in investing activities	(13,225)	(9,698)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	75,000	100,000
Repayments of long-term debt	(95,000)	(120,000)
Purchases of Company stock	(18)	(15,791)
Dividends paid	(10,209)	(9,747)
Proceeds from common stock issued	713	860
Excess tax benefits from share-based payments	67	853
Other	(22)	—
Net cash used in financing activities	(29,469)	(43,825)
Net decrease in cash and cash equivalents	(13,651)	(8,974)
Cash and cash equivalents at beginning of period	27,910	37,644
Cash and cash equivalents at end of period	\$14,259	\$28,670

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Meredith Corporation and its wholly owned subsidiaries (Meredith or the Company), after eliminating all significant intercompany balances and transactions. Meredith does not have any off-balance sheet arrangements. The Company's use of special-purpose entities is limited to Meredith Funding Corporation, whose activities are fully consolidated in Meredith's condensed consolidated financial statements.

The condensed consolidated financial statements as of September 30, 2009, and for the three months ended September 30, 2009 and 2008, are unaudited but, in management's opinion, include all normal, recurring adjustments necessary for a fair presentation of the results of interim periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements, including the related notes, are condensed and presented in accordance with accounting principles generally accepted in the United States of America (GAAP). These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in Meredith's Annual Report on Form 10-K for the year ended June 30, 2009, filed with the United States Securities and Exchange Commission (SEC).

Management has evaluated subsequent events through October 29, 2009, the date of issuance of the condensed consolidated financial statements.

Meredith is a diversified media company focused primarily on the home and family marketplace. On the basis of products and services, the Company has established two reportable segments: national media group and local media group. Prior to fiscal 2010, the national media group was called the publishing group and the local media group was called the broadcasting group. Other than changing the names of the segments, there have been no changes in the basis of segmentation since June 30, 2009. The national media group segment includes magazine and book publishing, integrated marketing, interactive media, database-related activities, brand licensing, and other related operations. The local media group segment consists primarily of the operations of network-affiliated television stations, related interactive media operations, and video related operations.

In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification (Codification) as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental

entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification does not change current GAAP, but is intended to simplify user access to authoritative literature related to a particular topic. Because the Codification does not change or alter existing GAAP, its adoption did not have any impact on the Company's financial position or results of operations. Its adoption did affect the way the Company references GAAP in its condensed consolidated financial statements and accounting policies.

In December 2007, the FASB revised the authoritative guidance for business combinations, which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company adopted this revised business combinations guidance on July 1, 2009. This guidance did not have any impact on the Company's condensed consolidated financial statements upon adoption on July 1, 2009. The Company expects the guidance to have an impact on its accounting for future business combinations, but the effect will be dependent upon the acquisitions that are made in the future.

In April 2008, the FASB issued authoritative guidance on determination of the useful lives of intangible assets, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset. This guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations or asset acquisitions. This guidance did not have any impact on the Company's condensed consolidated financial statements upon adoption on July 1, 2009. The Company expects it to have an impact on its accounting for future transactions, but the effect will be dependent upon the transactions that are made in the future.

In June 2008, the FASB issued authoritative guidance on determining whether instruments granted in share-based payment transactions are participating securities. Under the guidance, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The Company adopted this authoritative guidance effective July 1, 2009. Its adoption did not have an impact on the condensed consolidated financial statements.

In April 2009, the FASB issued authoritative guidance on interim disclosures about fair value of financial instruments. This guidance requires disclosures about fair value of financial instruments in interim reporting periods of publicly-traded companies that were previously only required to be disclosed in annual financial statements. The Company adopted this guidance in the first quarter of fiscal 2010. Its adoption expanded the Company's disclosure about fair value of our financial instruments in our condensed consolidated financial statements.

In September 2009, authoritative guidance on revenue arrangements with multiple deliverables was issued. This guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. It may be applied retrospectively or prospectively for new or materially modified arrangements and early adoption is permitted. The Company is assessing the potential impact of this guidance on our financial position and results of operations.

2. Restructuring and Discontinued Operations

Details of changes in the Company's restructuring accrual since June 30, 2009, are as follows:

Three Months Ended September 30,	2009
(In thousands)	
Balance at June 30, 2009	\$9,894
Cash payments	(1,564)
Other	(68)

Balance at September 30, 2009	\$8,262
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In December 2008, the Company announced the closing of *Country Home* magazine, effective with the March 2009 issue. The results of the *Country Home* magazine have been segregated from continuing operations and reported as discontinued operations. Amounts applicable to discontinued operations that have been reclassified in the Condensed Consolidated Statements of Earnings are as follows:

Three Months Ended September 30, (In thousands except per share data)	2008	
Revenues	\$6,368	
Costs and expenses	(7,074))
Loss before income taxes	(706))
Income taxes	275	
Loss from discontinued operations	\$(431))
Loss per share from discontinued operations:		
Basic	\$(0.01))
Diluted	(0.01))

3. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, approximately 39 percent are under the last-in first-out (LIFO) method at September 30, 2009, and 41 percent at June 30, 2009.

(In thousands)	September 30, 2009	June 30, 2009
Raw materials	\$17,850	\$18,322
Work in process	17,554	15,554
Finished goods	1,727	2,604
	37,131	36,480
Reserve for LIFO cost valuation	(7,539)	(8,329)
Inventories	\$29,592	\$28,151

4. Intangible Assets and Goodwill

Intangible assets consist of the following:

(In thousands)	September 30, 2009			June 30, 2009		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
National media group						
Noncompete agreements	\$480	\$(257)	) \$223	\$480	\$(224)	) \$256
Advertiser relationships	18,400	(11,172)	) 7,228	18,400	(10,515)	) 7,885
Customer lists	9,230	(2,582)	) 6,648	9,230	(2,252)	) 6,978
Other	3,544	(2,282)	) 1,262	3,544	(2,177)	) 1,367
Local media group						
Network affiliation agreements	218,559	(99,190)	) 119,369	218,559	(97,967)	) 120,592
Total	\$250,213	\$(115,483)	) 134,730	\$250,213	\$(113,135)	) 137,078
Intangible assets not subject to amortization						
National media group						
Internet domain names			996			996
Trademarks			124,431			124,431
Local media group						
FCC licenses			299,076			299,076
Total			424,503			424,503
Intangible assets, net			\$559,233			\$561,581

Amortization expense was \$2.3 million for the three months ended September 30, 2009. Annual amortization expense for intangible assets is expected to be as follows: \$9.4 million in fiscal 2010, \$9.3 million in fiscal 2011, \$9.0 million in fiscal 2012, \$6.3 million in fiscal 2013, and \$6.0 million in fiscal 2014.

For certain acquisitions consummated during the last three fiscal years, the sellers are entitled to contingent payments should the acquired operations achieve certain financial targets generally based on earnings before interest and taxes, as defined in the respective acquisition agreements. None of the contingent consideration is dependent on the continued employment of the sellers. As of September 30, 2009, the Company estimates that aggregate contingent payments will range from approximately \$39.7 million to \$67.3 million; the most likely estimate being approximately \$57.3 million. The maximum amount of contingent payments the sellers may receive over the next three years is \$227.9 million. The additional purchase consideration, if any, will be recorded as additional goodwill on our Consolidated Balance Sheet when the contingencies are resolved. No additional consideration was recognized in the three-month periods ended September 30, 2009 and 2008.

Changes in the carrying amount of goodwill were as follows:

Three Months Ended September 30, 2009				2008		
(In thousands)	National Media Group	Local Media Group	Total	National Media Group	Local Media Group	Total
Balance at beginning of period	\$462,379	\$—	\$462,379	\$449,734	\$82,598	\$532,332
Adjustments	—	—	—	75	—	75
Balance at end of period	\$462,379	\$—	\$462,379	\$449,809	\$82,598	\$532,407

5. Long-term Debt

Long-term debt consists of the following:

(In thousands)	September 30, 2009	June 30, 2009
Variable-rate credit facilities		
Asset-backed commercial paper facility of \$125 million, due 4/2/2011	\$—	\$80,000
Revolving credit facility of \$150 million, due 10/7/2010	110,000	125,000
Private placement notes		
4.70% senior notes, due 7/1/2010	75,000	75,000
4.70% senior notes, due 6/16/2011	50,000	50,000
5.04% senior notes, due 6/16/2012	50,000	50,000
6.70% senior notes, due 7/13/2013	50,000	—
7.19% senior notes, due 7/13/2014	25,000	—
Total long-term debt	360,000	380,000
Current portion of long-term debt	(75,000)	—
Long-term debt	\$285,000	\$380,000

In connection with the asset-backed commercial paper facility, Meredith entered into a revolving agreement to sell all of its rights, title, and interest in the majority of its accounts receivable related to advertising and miscellaneous revenues to Meredith Funding Corporation, a special purpose entity established to purchase accounts receivable from Meredith. At September 30, 2009, \$147.8 million of accounts receivable net of reserves was outstanding under the agreement. Meredith Funding Corporation in turn may sell receivable interests to an asset-backed commercial paper conduit administered by a major national bank. In consideration of the sale, Meredith receives cash and a subordinated note, bearing interest at the prime rate, 3.25 percent at September 30, 2009, from Meredith Funding Corporation. The agreement is structured as a true sale under which the creditors of Meredith Funding Corporation will be entitled to be satisfied out of the assets of Meredith Funding Corporation prior to any value being returned to Meredith or its creditors. The accounts of Meredith Funding Corporation are fully consolidated in Meredith's condensed consolidated

financial statements. The asset-backed commercial paper facility renews annually until April 2, 2011, the facility termination date. On October 27, 2009, the asset-backed commercial paper facility was amended to reduce the capacity to \$100 million.

Meredith generally does not engage in derivative or hedging activities, except to hedge interest rate risk on debt. Fundamental to our approach to risk management is the desire to minimize exposure to volatility in interest costs of variable rate debt, which can impact our earnings and cash flows. In fiscal 2007, we entered into interest rate swap agreements with counterparties that are major financial institutions. These agreements effectively fix the variable rate cash flow on \$100 million of our revolving credit facility. We designated and accounted for the interest rate swaps as cash flow hedges. The effective portion of the change in the fair value of interest rate swaps is reported in other comprehensive income (loss). The gain or loss included in other comprehensive income (loss) is subsequently reclassified into net earnings on the same line in the Consolidated Statements of Earnings as the hedged item in the same period that the hedge transaction affects net earnings. The ineffective portion of a change in fair value of the interest rate swaps would be reported in interest expense.

Under the swaps the Company pays, on a quarterly basis, fixed rates of interest (average 4.69 percent) and receives variable rates of interest based on the three-month LIBOR rate (average of 0.28 percent at September 30, 2009) on \$100 million notional amount of indebtedness. The Company evaluates the effectiveness of the hedging relationships on an ongoing basis by recalculating changes in fair value of the derivatives and related hedged items independently (the long-haul method). No material ineffectiveness existed at September 30, 2009. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to the swap agreements. Management does not expect any counterparties to fail to meet their obligations.

6. Fair Value Measurement

We have estimated the fair value of our financial instruments using available market information and valuation methodologies we believe to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that we would realize upon disposition.

The fair value hierarchy consists of three broad levels of inputs that may be used to measure fair value, which are described below:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
Assets or liabilities for which fair value is based on valuation
- Level 3 models with significant unobservable pricing inputs and which result in the use of management estimates.

As of September 30, 2009, Meredith had interest rate swap agreements that converted \$100 million of its variable-rate debt to fixed-rate debt. These agreements are required to be measured at fair value on a recurring basis. The Company determined that these interest rate swap agreements are defined as Level 2 in the fair value hierarchy. As of September 30, 2009, the fair value of these interest rate swap agreements was a liability of \$1.1 million based on significant other observable inputs (London Interbank Offered Rate (LIBOR)) within the fair value hierarchy. Fair value of interest rate swaps is based on a discounted cash flow analysis, predicated on forward LIBOR prices, of the estimated amounts the Company would have paid to terminate the swaps.

The carrying amount and estimated fair value of broadcast rights payable were \$32.6 million and \$30.0 million, respectively, as of September 30, 2009. The fair value of broadcast rights payable was determined using the present value of future cash flows discounted at the Company's current borrowing rate.

The carrying amount and estimated fair value of long-term debt were \$360.0 million and \$358.8 million, respectively, as of September 30, 2009. The fair value of long-term debt was determined using the present value of future cash flows using borrowing rates currently available for debt with similar terms and maturities.

7. Pension and Postretirement Benefit Plans

The following table presents the components of net periodic benefit costs:

Three Months Ended September 30, (In thousands)	Pension 2009	2008	Postretirement 2009	2008
Service cost	\$2,100	\$2,181	\$106	\$115
Interest cost	1,478	1,436	227	245
Expected return on plan assets	(1,785)	(2,331)	—	—
Prior service cost amortization	214	210	(184)	(184)
Actuarial loss amortization	1,622	155	—	—
Net periodic benefit costs	\$3,629	\$1,651	\$149	\$176

8. Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources. The Company's comprehensive income includes net earnings, changes in the fair value of interest rate swap agreements, and changes in prior service cost and net actuarial losses from pension and postretirement benefit plans. Total comprehensive income for the three months ended September 30, 2009 and 2008, was \$18.9 million and \$18.8 million, respectively.

9. Earnings per Share