

MEREDITH CORP

Form 10-Q

April 28, 2010

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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 March 31, 2010

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 organization)

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

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.

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 March 31, 2010

Common shares 36,279,652

Class B shares 9,092,582

Total common and Class B shares 45,372,234

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Meredith Corporation and Subsidiaries
Condensed Consolidated Balance Sheets

	(Unaudited)	
Assets	March 31, 2010	June 30, 2009
(In thousands)		
Current assets		
Cash and cash equivalents	\$ 23,666	\$ 27,910
Accounts receivable, net	229,209	192,367
Inventories	24,874	28,151
Current portion of subscription acquisition costs	59,541	60,017
Current portion of broadcast rights	9,767	8,297
Other current assets	15,996	23,398
Total current assets	363,053	340,140
Property, plant, and equipment	453,674	444,904
Less accumulated depreciation	(265,074)	(253,597)
Net property, plant, and equipment	188,600	191,307
Subscription acquisition costs	58,062	63,444
Broadcast rights	3,440	4,545
Other assets	53,247	45,907
Intangible assets, net	554,551	561,581
Goodwill	484,919	462,379
Total assets	\$ 1,705,872	\$ 1,669,303
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 140,000	\$ —
Current portion of long-term broadcast rights payable	13,580	10,560
Accounts payable	83,927	86,381
Accrued expenses and other liabilities	122,759	81,544
Current portion of unearned subscription revenues	167,858	170,731
Total current liabilities	528,124	349,216
Long-term debt	175,000	380,000
Long-term broadcast rights payable	9,979	11,851
Unearned subscription revenues	138,396	148,393
Deferred income taxes	89,027	64,322

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Other noncurrent liabilities	105,437		106,138	
Total liabilities	1,045,963		1,059,920	
Shareholders' equity				
Series preferred stock	—		—	
Common stock	36,280		35,934	
Class B stock	9,092		9,133	
Additional paid-in capital	63,193		53,938	
Retained earnings	581,719		542,006	
Accumulated other comprehensive loss	(30,375)	(31,628)
Total shareholders' equity	659,909		609,383	
Total liabilities and shareholders' equity	\$ 1,705,872		\$ 1,669,303	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Periods Ended March 31, (In thousands except per share data)	Three Months		Nine Months	
	2010	2009	2010	2009
Revenues				
Advertising	\$ 199,170	\$ 184,265	\$ 578,854	\$ 597,891
Circulation	74,598	72,869	211,686	211,086
All other	79,575	80,460	232,073	253,971
Total revenues	353,343	337,594	1,022,613	1,062,948
Operating expenses				
Production, distribution, and editorial	144,517	159,197	438,521	491,618
Selling, general, and administrative	142,044	124,323	428,298	421,523
Depreciation and amortization	10,313	10,714	30,533	32,346
Total operating expenses	296,874	294,234	897,352	945,487
Income from operations	56,469	43,360	125,261	117,461
Interest income	6	121	25	348
Interest expense	(3,952)	(4,911)	(14,737)	(15,698)
Earnings from continuing operations before income taxes	52,523	38,570	110,549	102,111
Income taxes	19,224	13,696	39,955	40,766
Earnings from continuing operations	33,299	24,874	70,594	61,345
Income (loss) from discontinued operations, net of taxes	—	554	—	(4,737)
Net earnings	\$ 33,299	\$ 25,428	\$ 70,594	\$ 56,608
Basic earnings per share				
Earnings from continuing operations	\$ 0.73	\$ 0.55	\$ 1.56	\$ 1.36
Discontinued operations	—	0.01	—	(0.11)
Basic earnings per share	\$ 0.73	\$ 0.56	\$ 1.56	\$ 1.25
Basic average shares outstanding	45,331	44,961	45,259	45,051
Diluted earnings per share				
Earnings from continuing operations	\$ 0.73	\$ 0.55	\$ 1.55	\$ 1.36
Discontinued operations	—	0.01	—	(0.11)
Diluted earnings per share	\$ 0.73	\$ 0.56	\$ 1.55	\$ 1.25
Diluted average shares outstanding	45,651	45,092	45,505	45,177
Dividends paid per share	\$ 0.230	\$ 0.225	\$ 0.680	\$ 0.655

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Consolidated Statement 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	—	—	—	70,594	—	70,594
Other comprehensive income, net	—	—	—	—	1,253	1,253
Total comprehensive income						71,847
Share-based incentive plan transactions	463	—	6,996	—	—	7,459
Purchases of Company stock	(157)	(1)	(5,070)	—	—	(5,228)
Share-based compensation	—	—	8,630	—	—	8,630
Conversion of Class B to common stock	40	(40)	—	—	—	—
Dividends paid, 68 cents per share						
Common stock	—	—	—	(24,682)	—	(24,682)
Class B stock	—	—	—	(6,199)	—	(6,199)
Tax benefit from incentive plans	—	—	(1,301)	—	—	(1,301)
Balance at March 31, 2010	\$ 36,280	\$ 9,092	\$ 63,193	\$ 581,719	\$ (30,375)	\$ 659,909

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Nine Months Ended March 31, (In thousands)	2010	2009
Cash flows from operating activities		
Net earnings	\$ 70,594	\$ 56,608
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	23,503	25,102
Amortization	7,030	7,251
Share-based compensation	8,630	8,600
Deferred income taxes	17,191	37,409
Amortization of broadcast rights	17,357	19,123
Payments for broadcast rights	(16,574)	(18,807)
Gain from dispositions of assets	(2,819)	(1,758)
Provision for write-down of impaired assets	3,249	5,602
Excess tax benefits from share-based payments	(489)	(673)
Changes in assets and liabilities	12,231	154
Net cash provided by operating activities	139,903	138,611
Cash flows from investing activities		
Acquisitions of businesses	(32,542)	(6,118)
Additions to property, plant, and equipment	(18,249)	(18,642)
Proceeds from dispositions of assets	—	636
Net cash used in investing activities	(50,791)	(24,124)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	85,000	120,000
Repayments of long-term debt	(150,000)	(150,000)
Purchases of Company stock	(5,228)	(21,763)
Dividends paid	(30,881)	(29,573)
Proceeds from common stock issued	7,459	3,178
Excess tax benefits from share-based payments	489	673
Other	(195)	(250)
Net cash used in financing activities	(93,356)	(77,735)
Net increase (decrease) in cash and cash equivalents	(4,244)	36,752
Cash and cash equivalents at beginning of period	27,910	37,644
Cash and cash equivalents at end of period	\$ 23,666	\$ 74,396

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

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. Certain prior-year financial information has been reclassified to conform to the current period presentation.

The condensed consolidated financial statements as of March 31, 2010, and for the three and nine months ended March 31, 2010 and 2009, 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).

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.

Recently Adopted Accounting Standards—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 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 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 consolidated financial statements upon adoption. 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.

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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 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 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 interim consolidated financial statements.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value measurement hierarchy. The Company adopted the new disclosure requirements on January 1, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. The adoption of the Level 1 and Level 2 disclosure guidance did not have an impact on the Company's consolidated financial position or results of operations.

In February 2010, the FASB issued amended guidance on subsequent events. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and the Company adopted these new requirements for the period ended March 31, 2010.

Recently Issued Accounting Standards—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

Restructuring

In March 2010, the Company committed to the realignment of our national media group's digital operations. In connection with this plan, the Company recorded a pre-tax restructuring charge of \$1.7 million for severance costs related to the involuntary termination of employees, which is recorded in the selling, general, and administrative line in the Condensed Consolidated Statements of Earnings. The plan affected approximately 30 employees. The majority

of severance costs will be paid out over the next 12 months.

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In December 2009, in response to the recessionary economy and the related decreases in consumer and advertising spending, management committed to a performance improvement plan to reposition our Special Interest Media (SIM) operations. In connection with this plan, the Company recorded a pre-tax restructuring charge of \$5.5 million, including severance costs of \$2.2 million and the write-off of deferred subscription acquisition costs of \$1.8 million, which are recorded in the selling, general, and administrative line in the Condensed Consolidated Statements of Earnings, and the write-off of manuscript and art inventory of \$1.5 million, which is recorded in the production, distribution, and editorial line in the Condensed Consolidated Statements of Earnings. Severance costs relate to the involuntary termination of employees. The plan affected approximately 45 employees. The majority of severance costs will be paid out over the next 9 months.

In March 2010, the Company recorded a \$1.3 million reversal of excess restructuring reserves previously accrued by the national media group in prior fiscal years. This credit to operating expenses is recorded in the selling, general, and administrative line in the Condensed Consolidated Statements of Earnings.

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

Nine Months Ended March 31, (In thousands)	2010	
Balance at June 30, 2009	\$	9,894
Severance accruals	3,922	
Cash payments	(4,084)
Reversal of excess accrual and other	(1,407)
Balance at March 31, 2010	\$	8,325

In December 2008, the Company announced the closing of Country Home magazine, effective with the March 2009 issue. The results of 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:

Periods Ended March 31, 2009 (In thousands except per share data)	Three Months	Nine Months
Revenues	\$ 5,260	\$ 16,584
Costs and expenses	(4,351)	(17,587)
Special items	—	(6,761)
Income (loss) before income taxes	909	(7,764)
Income taxes	(355)	3,027
Income (loss) from discontinued operations	\$ 554	\$ (4,737)
Income (loss) per share from discontinued operations		
Basic	\$ 0.01	\$ (0.11)
Diluted	0.01	(0.11)

3. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, approximately 46 percent are under the last-in first-out (LIFO) method at March 31, 2010, and 41 percent at June 30, 2009.

(In thousands)	March 31, 2010	June 30, 2009
Raw materials	\$ 15,528	\$ 18,322
Work in process	12,703	15,554
Finished goods	2,512	2,604
	30,743	36,480
Reserve for LIFO cost valuation	(5,869)	(8,329)
Inventories	\$ 24,874	\$ 28,151

4. Intangible Assets and Goodwill

Intangible assets consist of the following:

(In thousands)	March 31, 2010			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	\$ (311)	\$ 169	\$ 480	\$ (224)	\$ 256
Advertiser relationships	18,400	(12,486)	5,914	18,400	(10,515)	7,885
Customer lists	9,230	(3,241)	5,989	9,230	(2,252)	6,978
Other	3,544	(2,491)	1,053	3,544	(2,177)	1,367
Local media group						
Network affiliation agreements	218,559	(101,636)	116,923	218,559	(97,967)	120,592
Total	\$ 250,213	\$ (120,165)	130,048	\$ 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			\$ 554,551			\$ 561,581

Amortization expense was \$7.0 million for the nine months ended March 31, 2010. 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 March 31, 2010, the Company estimates that future aggregate contingent payments will range from approximately \$18.3 million to \$36.3 million; the most likely

estimate being approximately \$26.6 million. The maximum amount of contingent payments the sellers may receive over the next three years is \$155.7 million. The additional purchase consideration, if any, will be recorded as additional goodwill on our Consolidated Balance Sheet when the contingencies are resolved. For the nine months ended March 31, 2010, the Company recognized additional consideration of \$22.5 million, which increased goodwill. No additional consideration was recognized in the nine-month period ended March 31, 2009.

Changes in the carrying amount of goodwill were as follows:

Nine Months Ended March 31,	2010			2009		
	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
Acquisitions	22,540	—	22,540	16	—	16
Adjustments	—	—	—	(1,157)	—	(1,157)
Balance at end of period	\$ 484,919	\$ —	\$ 484,919	\$ 448,593	\$ 82,598	\$ 531,191

5. Long-term Debt

Long-term debt consists of the following:

(In thousands)	March 31, 2010	June 30, 2009
Variable-rate credit facilities		
Asset-backed commercial paper facility of \$100 million, due 3/29/2011	\$ —	\$ 80,000
Revolving credit facility of \$150 million, due 10/7/2010	65,000	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	315,000	380,000
Current portion of long-term debt	(140,000)	—
Long-term debt	\$ 175,000	\$ 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 March 31, 2010, \$141.8 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 March 31, 2010, 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 will next renew on March 29, 2011.

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;
- Level 3 Assets or liabilities for which fair value is based on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

The carrying amount and estimated fair value of broadcast rights payable were \$23.6 million and \$21.9 million, respectively, as of March 31, 2010. 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 \$315.0 million and \$322.4 million, respectively, as of March 31, 2010. 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:

Periods Ended March 31, (In thousands)	Three Months		Nine Months	
	2010	2009	2010	2009
Pension benefits				
Service cost	\$ 2,184	\$ 2,181	\$ 6,384	\$ 6,543
Interest cost	1,411	1,436	4,367	4,308
Expected return on plan assets	(2,291)	(2,331)	(5,861)	(6,993)
Prior service cost amortization	214	210	641	630
Actuarial loss amortization	841	155	4,085	465
Net periodic benefit expense	\$ 2,359	\$ 1,651	\$ 9,616	\$ 4,953
Postretirement benefits				
Service cost	\$ 106	\$ 115	\$ 317	\$ 345
Interest cost	227	245	681	735
Prior service cost amortization	(184)	(184)	(552)	(552)

Net periodic postretirement expense	\$ 149	\$ 176	\$ 446	\$ 528
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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 March 31, 2010 and 2009, was \$33.3 million and \$25.9 million, respectively. Total comprehensive income for the nine months ended March 31, 2010 and 2009, was \$71.8 million and \$56.3 million, respectively.

9. Earnings per Share

The following table presents the calculations of earnings per share:

Periods Ended March 31, (In thousands except per share data)	Three Months		Nine Months	
	2010	2009	2010	2009
Earnings from continuing operations	\$ 33,299	\$ 24,874	\$ 70,594	\$ 61,345
Basic average shares outstanding	45,331	44,961	45,259	45,051
Dilutive effect of stock options and equivalents	320	131	246	126
Diluted average shares outstanding	45,651	45,092	45,505	45,177
Earnings per share from continuing operations				
Basic earnings per share	\$ 0.73	\$ 0.55	\$ 1.56	\$ 1.36
Diluted earnings per share	0.73	0.55	1.55	1.36

For the three months ended March 31, antidilutive options excluded from the above calculations totaled 4,521,000 in 2010 (with a weighted average exercise price of \$42.71) and 5,184,000 in 2009 (with a weighted average exercise price of \$41.22). For the nine months ended March 31, antidilutive options excluded from the above calculations totaled 5,279,000 in 2010 (with a weighted average exercise price of \$40.91) and 5,077,000 in 2009 (with a weighted average exercise price of \$41.83).

In the nine months ended March 31, 2010, options were exercised to purchase 170,600 shares. No options were exercised in the nine months ended March 31, 2009.

10. Segment Information

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 named the publishing group and the local media group was named 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. There are no material intersegment transactions.

There are two principal financial measures reported to the chief executive officer for use in assessing segment performance and allocating resources. Those measures are operating profit and earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA). Operating profit for segment reporting, disclosed below, is revenues less operating costs excluding unallocated corporate expenses. Segment operating expenses include

allocations of certain centrally incurred costs such as employee benefits, occupancy, information systems, accounting services, internal legal staff, and human resources administration. These costs are allocated based on actual usage or other appropriate methods, primarily number of employees. Unallocated corporate expenses are corporate overhead expenses not directly attributable to the operating groups. In accordance with authoritative guidance on disclosures about segments of an enterprise and related information, EBITDA is not presented below.

The following table presents financial information by segment:

Periods Ended March 31, (In thousands)	Three Months		Nine Months	
	2010	2009	2010	2009
Revenues				
National media group	\$ 284,585	\$ 280,320	\$ 817,364	\$ 850,895
Local media group	68,758	57,274	205,249	212,053
Total revenues	\$ 353,343	\$ 337,594	\$ 1,022,613	\$ 1,062,948
Operating profit				
National media group	\$ 50,865	\$ 47,971	\$ 121,232	\$ 105,069
Local media group	12,828	1,348	32,291	34,373
Unallocated corporate	(7,224)	(5,959)	(28,262)	(21,981)
Income from operations	\$ 56,469	\$ 43,360	\$ 125,261	\$ 117,461
Depreciation and amortization				
National media group	\$ 3,694	\$ 3,789	\$ 10,843	\$ 11,843
Local media group	6,078	6,471	18,160	18,988
Unallocated corporate	541	454	1,530	1,515
Total depreciation and amortization	\$ 10,313	\$ 10,714	\$ 30,533	\$ 32,346

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW

Meredith Corporation (Meredith or the Company) is one of the nation's leading media and marketing companies, one of the leading magazine publishers serving women, and a broadcaster with television stations in top markets such as Atlanta, Phoenix, and Portland. Each month we reach more than 85 million American consumers through our magazines, books, custom publications, websites, and television stations.

Meredith operates two business segments. The national media group, which was formerly the publishing group, consists of magazine and book publishing, integrated marketing, interactive media, database-related activities, brand licensing, and other related operations. The local media group, which was formerly the broadcasting group, consists of 12 network-affiliated television stations, one radio station, related interactive media operations, and video related operations. Both segments operate primarily in the United States (U. S.) and compete against similar media and other types of media. The national media group accounted for 80 percent of the Company's \$1.0 billion in revenues in the first nine months of fiscal 2010 while local media group revenues represented 20 percent.

NATIONAL MEDIA GROUP

Advertising revenues made up 48 percent of national media group's first nine months' revenues. These revenues were generated from the sale of advertising space in the Company's magazines and on websites to clients interested in promoting their brands, products, and services to consumers. Circulation revenues accounted for 26 percent of national media group's first nine months' revenues. Circulation revenues result from the sale of magazines to consumers through subscriptions and by single copy sales on newsstands, primarily at major retailers and grocery/drug stores. The remaining 26 percent of national media group's revenues came from a variety of activities that included the sale of integrated marketing products and services and books as well as brand licensing, and other related activities. National media group's major expense categories are production and delivery of publications and promotional mailings and employee compensation costs.

LOCAL MEDIA GROUP

The local media group derives almost all of its revenues—91 percent in the first nine months of fiscal 2010—from the sale of advertising, both on the air and on our stations' websites. The remainder comes from television retransmission fees, television production services and products, and other services. Political advertising revenues are cyclical in that they are significantly greater during biennial election campaigns (which take place primarily in odd-numbered fiscal years) than at other times. Local media group's major expense categories are employee compensation and programming costs.

FIRST NINE MONTHS FISCAL 2010 FINANCIAL OVERVIEW

In the first nine months of fiscal 2010, management committed to performance improvement plans that included the realignment of our national media group digital operations and the repositioning of our Special Interest Media (SIM) operations. In connection with these plans, the national media group recorded pre-tax restructuring charges of \$1.7 million for severance and benefit costs in the third quarter of fiscal 2010 and \$5.5 million including severance and benefit costs of \$2.2 million and the write-off of various assets of our SIM operations of \$3.3 million in the second quarter. During the third quarter of fiscal 2010, the national media group recorded a \$1.3 million reversal of excess restructuring reserves accrued in prior fiscal years.

National media group revenues decreased 4 percent from the prior year primarily due to reductions in revenues at Meredith Books, which was expected due to the March 2009 licensing agreement with John Wiley & Sons, Inc.

- (Wiley). While advertising and integrated marketing revenues increased in the three-month period, they were lower than the prior-year nine-month period primarily due to the weakened economic conditions that existed during the early part of our fiscal year. Brand licensing revenues increased

in both the three and nine-month periods. National media group operating profit increased 15 percent, primarily as a result of the Company's ongoing initiative to reduce operating costs.

Local media group revenues were primarily affected by the cyclical decline in political advertising at the television stations and, to a lesser extent, lower overall demand in advertising in the first part of our fiscal year.

- As a result, local media group revenues and operating profit decreased 3 percent and 6 percent, respectively. However, for the three months ended March 31, 2010, local media group revenues increased 20 percent and operating profit was \$12.8 million, up significantly from \$1.3 million in the prior year.

- Diluted earnings per share increased 24 percent to \$1.55 from prior-year first nine months earnings of \$1.25.

We generated \$139.9 million in operating cash

- flow.

DISCONTINUED OPERATIONS

In the third quarter of fiscal 2009, the Company discontinued the operations of Country Home magazine. The revenues and expenses, along with associated taxes, were reclassified from continuing operations into a single line item on the Condensed Consolidated Statements of Earnings titled earnings (loss) from discontinued operations, net of taxes. Unless stated otherwise, as in the section titled Discontinued Operations, all of the information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) relates to continuing operations.

USE OF NON-GAAP FINANCIAL MEASURES

These consolidated financial statements, including the related notes, are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). Our analysis of local media group results includes references to earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA). EBITDA and EBITDA margin are non-GAAP measures. We use EBITDA along with operating profit and other GAAP measures to evaluate the financial performance of our local media group. EBITDA is a common measure of performance in the broadcasting industry and is used by investors and financial analysts, but its calculation may vary among companies. Local media group EBITDA is not used as a measure of liquidity, nor is it necessarily indicative of funds available for our discretionary use.

We believe the non-GAAP measures used in MD&A contribute to an understanding of our financial performance and provide an additional analytic tool to understand our results from core operations and to reveal underlying trends. These measures should not, however, be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

RESULTS OF OPERATIONS

Three Months Ended March 31, (In thousands except per share data)	2010	2009	Change
Total revenues	\$ 353,343	\$ 337,594	5 %
Operating expenses	(296,874)	(294,234)	1 %
Income from operations	\$ 56,469	\$ 43,360	30 %
Earnings from continuing operations	\$ 33,299	\$ 24,874	34 %
Net earnings	33,299	25,428	31 %
Diluted earnings per share from continuing operations	0.73	0.55	33 %
Diluted earnings per share	0.73	0.56	30 %
Nine Months Ended March 31, (In thousands except per share data)	2010	2009	Change
Total revenues	\$ 1,022,613	\$ 1,062,948	(4)%
Operating expenses	(897,352)	(945,487)	(5)%
Income from operations	\$ 125,261	\$ 117,461	7 %
Earnings from continuing operations	\$ 70,594	\$ 61,345	15 %
Net earnings	70,594	56,608	25 %
Diluted earnings per share from continuing operations	1.55	1.36	14 %
Diluted earnings per share	1.55	1.25	24 %

The following sections provide an analysis of the results of operations for the national media group and local media group and an analysis of the consolidated results of operations for the three and nine months ended March 31, 2010, compared with the prior-year period. This commentary should be read in conjunction with the interim condensed consolidated financial statements presented elsewhere in this report and with our Annual Report on Form 10-K for the year ended June 30, 2009.

NATIONAL MEDIA GROUP

National media group operating results were as follows:

Three Months Ended March 31,	2010	2009	Change	
(In thousands)				
Advertising revenue	\$ 137,337	\$ 132,242	4	%
Circulation revenue	74,598	72,869	2	%
Other revenue	72,650	75,209	(3))%
Total revenues	284,585			