MEREDITH CORP
Form 10-Q
January 26, 2017
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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 December 31, 2016 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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Yes o No x

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 December 31, 2016	
Common shares	39,334,685
Class B shares	5,160,053
Total common and Class B shares	44,494,738

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Meredith Corporation and its consolidated subsidiaries are referred to in this Quarterly Report on Form 10 Q (Form 10 Q) as Meredith, the Company, we, our, and us.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

Meredith Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

Assets	December 31, 2016	June 30, 2016
(In thousands)		
Current assets		
Cash and cash equivalents	$ 44,488	$ 24,970
Accounts receivable, net	284,840	273,927
Inventories	20,009	20,678
Current portion of subscription acquisition costs	147,630	133,338
Current portion of broadcast rights	11,093	4,220
Other current assets	23,422	24,023
Total current assets	531,482	481,156
Property, plant, and equipment	536,744	530,052
Less accumulated depreciation	(352,986)	(339,099)
Net property, plant, and equipment	183,758	190,953
Subscription acquisition costs	97,939	95,960
Broadcast rights	4,610	4,565
Other assets	57,711	57,151
Intangible assets, net	913,157	913,877
Goodwill	895,389	883,129
Total assets	$ 2,684,046	$ 2,626,791
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 62,500	$ 75,000
Current portion of long-term broadcast rights payable	11,956	4,649
Accounts payable	75,694	82,107
Accrued expenses and other liabilities	127,598	116,777
Current portion of unearned subscription revenues	213,648	199,359
Total current liabilities	491,396	477,892
Long-term debt	611,691	618,506
Long-term broadcast rights payable	5,528	5,524
Unearned subscription revenues	131,002	128,534
Deferred income taxes	361,278	336,346
Other noncurrent liabilities	127,266	170,946
Total liabilities	1,728,161	1,737,748
Shareholders' equity		
Series preferred stock	—	—
Common stock	39,335	39,272
Class B stock	5,160	5,284
Additional paid-in capital	55,333	54,282
Retained earnings	879,661	818,706
Accumulated other comprehensive loss	(23,604)	(28,501)
Total shareholders' equity	955,885	889,043

Total liabilities and shareholders' equity	$ 2,684,046	$ 2,626,791

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months		Six Months	
Periods ended December 31,	2016	2015	2016	2015
(In thousands except per share data)				
Revenues				
Advertising	$267,129	$241,571	$493,018	$460,241
Circulation	66,805	66,351	135,473	138,526
All other	108,708	98,491	214,030	192,312
Total revenues	442,642	406,413	842,521	791,079
Operating expenses				
Production, distribution, and editorial	148,625	151,065	298,853	304,243
Selling, general, and administrative	170,643	176,792	345,636	351,522
Depreciation and amortization	13,549	14,986	27,445	30,066
Merger-related costs	—	3,457	—	16,123
Total operating expenses	332,817	346,300	671,934	701,954
Income from operations	109,825	60,113	170,587	89,125
Interest expense, net	(4,679)	(5,265)	(9,428)	(10,578)
Earnings before income taxes	105,146	54,848	161,159	78,547
Income taxes	(33,341)	(22,329)	(55,381)	(34,999)
Net earnings	$71,805	$32,519	$105,778	$43,548
Basic earnings per share	$1.61	$0.73	$2.38	$0.98
Basic average shares outstanding	44,511	44,640	44,535	44,626
Diluted earnings per share	$1.58	$0.72	$2.33	$0.96
Diluted average shares outstanding	45,378	45,358	45,385	45,373
Dividends paid per share	$0.4950	$0.4575	$0.9900	$0.9150

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months		Six Months	
Periods ended December 31,	2016	2015	2016	2015
(In thousands)				
Net earnings	$71,805	$32,519	$105,778	$43,548
Other comprehensive income, net of income taxes				
Pension and other postretirement benefit plans activity	537	(2)	1,075	(3)
Unrealized gain (loss) on interest rate swaps	2,354	2,162	3,822	(46)
Other comprehensive income (loss), net of income taxes	2,891	2,160	4,897	(49)
Comprehensive income	$74,696	$34,679	$110,675	$43,499

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Condensed 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, 2016	$39,272	$5,284	$54,282	$818,706	$ (28,501)	$889,043
Net earnings	—	—	—	105,778	—	105,778
Other comprehensive income, net of income taxes	—	—	—	—	4,897	4,897
Shares issued under incentive plans, net of forfeitures	438	—	16,550	—	—	16,988
Purchases of Company stock	(499)	—	(25,954)	—	—	(26,453)
Share-based compensation	—	—	9,408	—	—	9,408
Conversion of Class B to common stock	124	(124)	—	—	—	—
Dividends paid						
Common stock	—	—	—	(39,654)	—	(39,654)
Class B stock	—	—	—	(5,169)	—	(5,169)
Tax benefit from share-based awards	—	—	1,047	—	—	1,047
Balance at December 31, 2016	$39,335	$5,160	$55,333	$879,661	$ (23,604)	$955,885

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Six months ended December 31,	2016	2015
(In thousands)		
Cash flows from operating activities		
Net earnings	$105,778	$43,548
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	17,885	20,249
Amortization	9,560	9,817
Share-based compensation	9,408	8,804
Deferred income taxes	21,879	15,149
Amortization of broadcast rights	8,740	8,452
Payments for broadcast rights	(8,346)	(8,313)
Provision for write-down of impaired assets	1,838	—
Fair value adjustments to contingent consideration	(17,961)	(140)
Excess tax benefits from share-based payments	(2,883)	(1,706)
Changes in assets and liabilities	(28,617)	(48,158)
Net cash provided by operating activities	117,281	47,702
Cash flows from investing activities		
Acquisitions of and investments in businesses, net of cash acquired	(11,819)	(186)
Additions to property, plant, and equipment	(10,949)	(7,866)
Proceeds from disposition of assets	—	1,767
Net cash used in investing activities	(22,768)	(6,285)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	270,000	90,000
Repayments of long-term debt	(288,125)	(86,250)
Dividends paid	(44,823)	(41,362)
Purchases of Company stock	(26,453)	(6,538)
Proceeds from common stock issued	16,988	6,455
Payment of acquisition-related contingent consideration	(4,000)	(288)
Excess tax benefits from share-based payments	2,883	1,706
Other	(1,465)	(114)
Net cash used in financing activities	(74,995)	(36,391)
Net increase in cash and cash equivalents	19,518	5,026
Cash and cash equivalents at beginning of period	24,970	22,833
Cash and cash equivalents at end of period	$44,488	$27,859

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.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. 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, 2016, filed with the SEC.

The condensed consolidated financial statements as of December 31, 2016, and for the three and six months ended December 31, 2016 and 2015, are unaudited but, in management's opinion, include all normal, recurring adjustments necessary for a fair presentation of the results of interim periods. The year-end condensed consolidated balance sheet data as of June 30, 2016, were derived from audited financial statements, but do not include all disclosures required by GAAP. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year.

Adopted Accounting Pronouncements—In April 2015, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of debt issuance costs. The new standard requires that debt issuance costs be recorded as a reduction from the face amount of the related debt rather than recorded as a deferred asset, with amortization recorded as interest expense. The Company adopted this guidance in the first quarter of fiscal 2017, and it was retrospectively applied to the prior period, as required. Adoption changed the classification of debt issuance costs from other assets to current portion of long-term debt or long-term debt based on the classification of the related debt instrument. As a result, other assets and long-term debt each decreased by $1.5 million as of June 30, 2016, compared to amounts previously reported. Additionally, the format of the long-term debt disclosure was updated to include debt issuance costs separately. The adoption did not have an impact on our results of operations or cash flows.

In April 2015, the FASB issued guidance on the presentation of cloud computing arrangements that include a software license. The new guidance requires capitalization of the software license fee as internal-use software if certain criteria are met, otherwise the costs are expensed as incurred. The standard was prospectively adopted by the Company in the first quarter of fiscal 2017. The adoption of the standard had no impact to the Company's consolidated financial statements.

In June 2015, the FASB issued an accounting standards update that made technical corrections to the FASB Accounting Standards Codification. These technical corrections are divided into four categories: amendments related to differences between original guidance and the codification, guidance clarification and reference corrections, minor structural changes to simplify the codification, and minor improvements that are not expected to have a significant impact on current accounting practice. The amendments were effective for the Company in the first quarter of fiscal 2017. The adoption of the amendments had no impact to the Company's consolidated financial statements.

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Pending Accounting Pronouncements—In August 2016, the FASB issued an accounting standards update clarifying the classification of certain cash receipts and payments in the statement of cash flows. The update is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. Retrospective adoption is required in our first quarter of fiscal 2019 with early adoption permitted, including adoption in an interim period. The Company is currently evaluating the impact this update will have on its consolidated financial statements and the timing of adoption.

In January 2017, the FASB issued an accounting standards update that clarifies the definition of a business and adds guidance to assist entities in the determination of whether an acquisition (or disposal) represents assets or a business. The update provides a test to determine whether or not an acquisition is a business. If substantially all of the fair value of the assets acquired is concentrated into a single asset or a group of similar identifiable assets, the acquired assets do not represent a business. If this test is not met, the update provides further guidance to evaluate if the acquisition represents a business. Prospective adoption is required in the first quarter of fiscal 2019. Early adoption is permitted if certain transaction criteria are met. The Company is currently evaluating the impact this update will have on its consolidated financial statements and the timing of adoption.

2. Acquisitions

On December 7, 2016, Meredith acquired the assets of a digital lead-generation company in the home services market. The acquisition-date fair value of the consideration was $21.1 million, which consisted of $13.4 million of cash and $7.7 million of contingent consideration. The contingent consideration arrangement requires the Company to pay contingent payments based on the achievement of certain targets in fiscal 2017 and on financial performance during fiscal 2017 through fiscal 2021 measured in terms of earnings before interest, taxes, depreciation, and amortization (EBITDA) as defined in the acquisition agreement. The contingent consideration is not dependent on the continued employment of the sellers. We estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. The fair value is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in Note 10. As of December 31, 2016, the Company estimates the future payments will range from $7.3 million to $9.3 million. As a result of this acquisition, $21.1 million of goodwill and other intangible assets were recorded in the Condensed Consolidated Balance Sheet.

In fiscal 2015, the Company acquired a business for a purchase price which included contingent consideration based on the fiscal 2018 results of the business. The fair value of the contingent consideration was estimated based on the projected results for fiscal 2018 in financial models developed for the business. These models are reviewed and updated on a quarterly basis. During the second quarter of fiscal 2017, a comprehensive review of the acquired business's operations was completed. As a result of the business having failed to achieve certain key milestones, the Company revised its financial models for the acquired business. Projected fiscal 2018 results for the business are now lower than originally estimated. Accordingly, in the second quarter of fiscal 2017, the Company recognized a non-cash credit to operations of $19.6 million to reduce the estimated contingent consideration payable on the previously acquired business. This credit was recorded in the selling, general, and administrative expense line on the Consolidated Statements of Earnings. As of December 31, 2016, the Company estimates the future aggregate payments for this business will range from zero to $10 million.

3. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, 56 percent are under the last-in first-out (LIFO) method at December 31, 2016, and 54 percent at June 30, 2016.

(In thousands)	December 31, 2016	June 30, 2016
Raw materials	$ 8,637	$ 11,698
Work in process	13,096	10,107
Finished goods	1,237	1,834
	22,970	23,639
Reserve for LIFO cost valuation	(2,961)	(2,961)
Inventories	$ 20,009	$ 20,678

4. Intangible Assets and Goodwill

Intangible assets consist of the following:

	December 31, 2016			June 30, 2016		
(In thousands)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
National media						
Advertiser relationships	$ 21,860	$ (13,224)	$ 8,636	$ 18,610	$ (10,670)	$ 7,940
Customer lists	3,080	(2,930)	150	5,230	(4,310)	920
Other	23,515	(8,336)	15,179	19,425	(8,685)	10,740
Local media						
Network affiliation agreements	229,309	(139,003)	90,306	229,309	(135,789)	93,520
Retransmission agreements	21,229	(8,762)	12,467	21,229	(6,993)	14,236
Other	1,023	(330)	693	1,214	(419)	795
Total	$ 300,016	$ (172,585)	127,431	$ 295,017	$ (166,866)	128,151
Intangible assets not subject to amortization						
National media						
Internet domain names			7,827			7,827
Trademarks			153,215			153,215
Local media						
FCC licenses			624,684			624,684
Total			785,726			785,726
Intangible assets, net			$ 913,157			$ 913,877

Amortization expense was $9.6 million and $9.8 million for the six months ended December 31, 2016 and 2015, respectively. Annual amortization expense for intangible assets is expected to be as follows: $19.1 million in fiscal 2017, $16.8 million in fiscal 2018, $14.3 million in fiscal 2019, $13.3 million in fiscal 2020, and $9.3 million in fiscal 2021.

Changes in the carrying amount of goodwill were as follows:

Six months ended December 31,	2016			2015		
(In thousands)	National Media	Local Media	Total	National Media	Local Media	Total
Balance at beginning of period						
Goodwill	$931,303	$68,775	$1,000,078	$932,471	$68,775	$1,001,246
Accumulated impairment losses	(116,949)	—	(116,949)	—	—	—
Total goodwill	814,354	68,775	883,129	932,471	68,775	1,001,246
Acquisition adjustments	12,260	—	12,260	(1,168)	—	(1,168)
Balance at end of period						
Goodwill	943,563	68,775	1,012,338	931,303	68,775	1,000,078
Accumulated impairment losses	(116,949)	—	(116,949)	—	—	—
Total goodwill	$826,614	$68,775	$895,389	$931,303	$68,775	$1,000,078

5. Restructuring Accrual

During the second quarter of fiscal 2017, management committed to a performance improvement plan that included selected workforce reductions primarily in our national media group. In connection with this plan, the Company recorded pre-tax restructuring charges totaling $8.1 million including $7.6 million for severance and related benefit costs related to the involuntary termination of employees and other accruals of $0.3 million. The majority of severance costs are being paid out over a 12-month period. The plan affects approximately 125 employees. The severance and related benefit costs and other accruals are recorded in the selling, general, and administrative line of the Condensed Consolidated Statements of Earnings. The Company also wrote down manuscript and art inventory by $0.2 million, which is recorded in the production, distribution, and editorial line of the Condensed Consolidated Statements of Earnings.

During the first quarter of fiscal 2016, management committed to a performance improvement plan that included selected workforce reductions. In connection with this plan, the Company recorded pre-tax restructuring charges totaling $3.4 million for severance and related benefit costs related to the involuntary termination of employees. The majority of severance costs have been paid out. The plan affected approximately 45 employees. The Company also recorded $1.1 million in reversals of excess restructuring reserves accrued in prior fiscal years. The severance and related benefit costs and the credits for the reversal of excess restructuring reserves are recorded in the selling, general, and administrative line of the Condensed Consolidated Statements of Earnings.

During the second quarter of fiscal 2016, management committed to a performance improvement plan that included selected workforce reductions. In connection with this plan, the Company recorded pre-tax restructuring charges totaling $1.0 million for severance and related benefit costs related to the involuntary termination of employees. The majority of severance costs have been paid out. The plan affected approximately 25 employees. The Company also recorded $0.5 million in reversals of excess restructuring reserves accrued in prior fiscal years. The severance and related benefit costs and the credits for the reversal of excess restructuring reserves are recorded in the selling, general, and administrative line of the Condensed Consolidated Statements of Earnings.

Details of changes in the Company's restructuring accrual are as follows:

Six months ended December 31,	2016	2015
(In thousands)		
Balance at beginning of period	$7,388	$15,731
Severance accruals	7,578	4,380
Cash payments	(3,484)	(8,108)
Reversal of excess accrual	(13)	(1,584)
Balance at end of period	$11,469	$10,419

6. Long-term Debt

Long-term debt consists of the following:

(In thousands)	December 31, 2016	June 30, 2016
Variable-rate credit facilities		
Asset-backed bank facility of $100 million, due 10/20/2017	$ 80,000	$80,000
Revolving credit facility of $200 million, due 11/30/2021	—	40,000
Term loan due 11/30/2021	246,875	225,000
Private placement notes		
3.04% senior notes, due 3/1/2017	50,000	50,000
3.04% senior notes, due 3/1/2018	50,000	50,000
Floating rate senior notes, due 12/19/2022	100,000	100,000
Floating rate senior notes, due 2/28/2024	150,000	150,000
Total long-term debt	676,875	695,000
Unamortized debt issuance costs	(2,684)	(1,494)
Current portion of long-term debt	(62,500)	(75,000)
Long-term debt	$ 611,691	$618,506

In connection with the asset-backed bank 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 December 31, 2016, $175.4 million of accounts receivable net of reserves was outstanding under the agreement. Meredith Funding Corporation in turn may sell receivable interests to a major national bank. In consideration of the sale, Meredith receives cash and a subordinated note, bearing interest at the prime rate, 3.75 percent at December 31, 2016, 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.

During the second quarter of fiscal 2017, Meredith amended and restated its credit agreement that provides a revolving credit facility of $200.0 million and a term loan facility of $250.0 million, which now expires in November 2021. Other than extending the expiration date, the terms of the amended and restated credit agreement are substantially the same as those previously in place. The interest rate under both facilities is variable based on London Interbank Offered Rate (LIBOR) and Meredith's debt to trailing 12 month EBITDA (earnings before interest, taxes, depreciation and amortization as defined in the debt agreement) ratio. The commitment fees under the revolving credit facility range from 0.125 percent to 0.250 percent of the unused commitment based on the

Company's leverage ratio. The amended and restated credit agreement replaced our prior revolving credit facility and term loan.

The Company holds interest rate swap agreements to hedge variable interest rate risk on the $250.0 million floating-rate senior notes and on $50.0 million of the term loan. The expiration of the swaps is as follows: $50.0 million in August 2018, $100.0 million in March 2019, and $150.0 million in August 2019. Under the swaps the Company will pay fixed rates of interest (1.36 percent on the swap maturing in August 2018, 1.53 percent on the swap maturing in March 2019, and 1.76 percent on the swaps maturing in August 2019) and receive variable rates of interest based on the one to three-month LIBOR (0.74 percent on the swap maturing in August 2018, 0.99 percent on the swap maturing in March 2019, and 0.94 percent on the swaps maturing in August 2019 as of December 31, 2016) on the $300.0 million notional amount of indebtedness. The swaps are designated as cash flow hedges. 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.

Unrealized gains or losses on cash flow hedges are recorded in other comprehensive income to the extent the cash flow hedges are effective. The amount of the swap that offsets the effects of interest rate changes on the related debt is subsequently reclassified into interest expense. Any ineffective portions on cash flow hedges are recorded in interest expense. No material ineffectiveness existed at either December 31, 2016 or 2015.

The fair value of the interest rate swap agreements is the estimated amount the Company would pay or receive to terminate the swap agreements. At December 31, 2016, the swaps had a fair value of $1.0 million liability. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to the swap agreements. The Company strives to manage this exposure through diversification and monitoring of the creditworthiness of the counterparties. There was $0.4 million of potential loss that the Company would incur on the interest rate swaps if the counterparties were to fail to meet their obligations under the agreements at December 31, 2016. Given the strong creditworthiness of the counterparties, management does not expect any of them to fail to meet their obligations. Additionally, the concentration of risk with any individual counterparty is not considered significant at December 31, 2016.

7. Income Taxes

Our effective tax rate was 31.7 percent in the second quarter and 34.4 percent in the first six months of fiscal 2017 as compared to 40.7 percent in the second quarter and 44.6 percent in the first six months of fiscal 2016. The fiscal 2017 effective tax rates were primarily impacted by a credit to income taxes of $6.7 million in the second quarter of fiscal 2017 related to the resolution of certain federal and state tax matters. The fiscal 2016 effective tax rates were primarily impacted by anticipated limitations on the tax deductibility of certain expenses.

8. Pension and Postretirement Benefit Plans

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

	Three Months		Six Months	
Periods ended December 31,	2016	2015	2016	2015
(In thousands)				
Pension benefits				
Service cost	$3,136	$2,977	$6,273	$5,954
Interest cost	1,225	1,469	2,450	2,938
Expected return on plan assets	(2,298)	(2,746)	(4,596)	(5,492)
Prior service cost amortization	49	49	97	98
Actuarial loss amortization	897	157	1,794	314
Net periodic benefit costs	$3,009	$1,906	$6,018	$3,812
Postretirement benefits				
Service cost	$23	$25	$46	$50
Interest cost	80	96	160	192
Prior service credit amortization	(98)	(107)	(196)	(214)
Actuarial gain amortization	(77)	(169)	(155)	(338)
Net periodic benefit credit	$(72)	$(155)	$(145)	$(310)

The amortization of amounts related to unrecognized prior service costs and net actuarial gain/loss was reclassified out of other comprehensive income as components of net periodic benefit costs.

9. Earnings per Share

The following table presents the calculations of earnings per share:

	Three Months		Six Months	
Periods ended December 31,	2016	2015	2016	2015
(In thousands except per share data)				
Net earnings	$71,805	$32,519	$105,778	$43,548
Basic average shares outstanding	44,511	44,640	44,535	44,626
Dilutive effect of stock options and equivalents	867	718	850	747
Diluted average shares outstanding	45,378	45,358	45,385	45,373
Earnings per share				
Basic earnings per share	$1.61	$0.73	$2.38	$0.98
Diluted earnings per share	1.58	0.72	2.33	0.96

For the three months ended December 31, 2016 and 2015, antidilutive options excluded from the above calculations totaled 0.8 million (with a weighted average exercise price of $53.64) and 1.5 million (with a weighted average exercise price of $48.58), respectively.

For the six months ended December 31, 2016 and 2015, antidilutive options excluded from the above calculations totaled 0.5 million (with a weighted average exercise price of $53.98) and 1.3 million (with a weighted average exercise price of $49.26), respectively.

In the six months ended December 31, 2016 and 2015, options were exercised to purchase 0.4 million and 0.1 million common shares, respectively.

10. Fair Value Measurements

We 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 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 following table sets forth the carrying value and the estimated fair value of the Company's financial instruments not measured at fair value on a recurring basis:

	December 31, 2016	June 30, 2016

(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Broadcast rights payable	$17,484	$16,709	$10,173	$9,655
Total long-term debt	676,875	677,125	695,000	695,533

The fair value of broadcast rights payable was determined using the present value of expected future cash flows discounted at the Company's current borrowing rate with inputs included in Level 3. The fair value of total long-term debt was determined using the present value of expected future cash flows using borrowing rates currently available for debt with similar terms and maturities with inputs included in Level 2.

The following table sets forth the assets and liabilities measured at fair value on a recurring basis:

(In thousands)	December 31, 2016	June 30, 2016
Property, plant, and equipment		
Corporate airplanes, held for sale	$ 2,800	$ 2,800
Other assets		
Interest rate swaps	414	—
Accrued expenses and other liabilities		
Contingent consideration	10,431	—
Interest rate swaps	1,420	2,768
Other noncurrent liabilities		
Contingent consideration	31,920	56,631
Interest rate swaps	—	4,511

The fair value of interest rate swaps is determined using discounted cash flows derived from market observable inputs including swap curves that are included in Level 2. The fair values of contingent consideration and corporate airplanes are based on significant inputs not observable in the market and thus represents Level 3 measurements.

Details of changes in the fair value of Level 3 contingent consideration and corporate airplanes are as follows:

Six months ended December 31,	2016	2015
(in thousands)		
Contingent consideration		
Balance at beginning of period	$56,631	$61,535
Additions due to acquisitions	7,681	—
Payments	(4,000)	(288)
Change in present value of contingent consideration [1]	(17,961)	(140)
Balance at end of period	$42,351	$61,107
Corporate airplanes, held for sale		
Balance at beginning of period [2]	$2,800	$—
Fair market adjustment of corporate airplanes	—	—
Balance at end of period	$2,800	$—

(1) Change in present value of contingent consideration is recorded in the selling, general, and administrative expense line on the Condensed Consolidated Statements of Earnings and is comprised of changes in estimated earn out payments based on projections of performance and the accretion of the present value discount.

(2) Consistent with the decision to sell the corporate airplanes, these assets were adjusted to fair value in the fourth quarter of fiscal 2016.

11. Financial Information about Industry Segments

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 and local media. There have been no changes in the basis of segmentation since June 30, 2016. There have been 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 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:

	Three Months		Six Months	
Periods ended December 31,	2016	2015	2016	2015
(In thousands)				
Revenues				
National media	$259,345	$266,527	$506,638	$524,726
Local media	183,297	139,886	335,883	266,353
Total revenues	$442,642	$406,413	$842,521	$791,079
Segment profit				
National media	$46,757	$33,583	$70,868	$56,386
Local media	76,815	40,441	127,437	69,768
Unallocated corporate	(13,747)	(13,911)	(27,718)	(37,029)
Income from operations	109,825	60,113	170,587	89,125
Interest expense, net	(4,679)	(5,265)	(9,428)	(10,578)
Earnings before income taxes	$105,146	$54,848	$161,159	$78,547
Depreciation and amortization				
National media	$4,330	$4,833	$8,848	$9,398
Local media	8,865	9,616	17,855	19,594
Unallocated corporate	354	537	742	