

MEREDITH CORP

Form 10-Q

January 24, 2013

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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, 2012

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  Smaller reporting company

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

Yes  No

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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, 2012

|                                 |            |
|---------------------------------|------------|
| Common shares                   | 36,018,253 |
| Class B shares                  | 8,348,497  |
| Total common and Class B shares | 44,366,750 |

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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,<br>2012 | June 30,<br>2012 |
|---|----------------------|------------------|
| (In thousands)  |                      |                  |
| Current assets  |                      |                  |
| Cash and cash equivalents                             | \$24,714             | \$25,820         |
| Accounts receivable, net                              | 222,772              | 215,526          |
| Inventories   | 24,937               | 22,559           |
| Current portion of subscription acquisition costs     | 89,436               | 75,446           |
| Current portion of broadcast rights                   | 6,753                | 3,408            |
| Other current assets                                  | 21,084               | 16,677           |
| Total current assets                                  | 389,696              | 359,436          |
| Property, plant, and equipment                        | 458,673              | 455,271          |
| Less accumulated depreciation                         | (268,081 )           | (260,967 )       |
| Net property, plant, and equipment                    | 190,592              | 194,304          |
| Subscription acquisition costs                        | 90,989               | 75,368           |
| Broadcast rights                                      | 2,711                | 943              |
| Other assets  | 66,813               | 66,858           |
| Intangible assets, net                                | 581,922              | 586,263          |
| Goodwill  | 733,208              | 733,127          |
| Total assets  | \$2,055,931          | \$2,016,299      |
| Liabilities and Shareholders' Equity                  |                      |                  |
| Current liabilities                                   |                      |                  |
| Current portion of long-term debt                     | \$50,000             | \$105,000        |
| Current portion of long-term broadcast rights payable | 9,619                | 6,752            |
| Accounts payable                                      | 48,048               | 72,911           |
| Accrued expenses and other liabilities                | 131,864              | 117,071          |
| Current portion of unearned subscription revenues     | 190,997              | 180,852          |
| Total current liabilities                             | 430,528              | 482,586          |
| Long-term debt  | 315,000              | 275,000          |
| Long-term broadcast rights payable                    | 4,468                | 3,695            |
| Unearned subscription revenues                        | 155,640              | 141,408          |
| Deferred income taxes                                 | 223,534              | 204,054          |
| Other noncurrent liabilities                          | 109,409              | 112,111          |
| Total liabilities                                     | 1,238,579            | 1,218,854        |
| Shareholders' equity                                  |                      |                  |
| Series preferred stock                                | —                    | —                |
| Common stock  | 36,018               | 35,791           |
| Class B stock   | 8,348                | 8,716            |
| Additional paid-in capital                            | 47,176               | 53,275           |
| Retained earnings                                     | 748,197              | 722,778          |
| Accumulated other comprehensive loss                  | (22,387 )            | (23,115 )        |

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|  |             |             |
|--|-------------|-------------|
| Total shareholders' equity                 | 817,352     | 797,445     |
| Total liabilities and shareholders' equity | \$2,055,931 | \$2,016,299 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Periods ended December 31,<br>(In thousands except per share data) | Three Months |           | Six Months |           |
|--|--------------|-----------|------------|-----------|
|  | 2012         | 2011      | 2012       | 2011      |
| <b>Revenues</b>  |              |           |            |           |
| Advertising  | \$217,094    | \$183,636 | \$424,216  | \$367,953 |
| Circulation  | 67,398       | 63,902    | 142,887    | 130,491   |
| All other  | 76,103       | 81,179    | 147,649    | 158,182   |
| Total revenues   | 360,595      | 328,717   | 714,752    | 656,626   |
| <b>Operating expenses</b>  |              |           |            |           |
| Production, distribution, and editorial                            | 134,117      | 128,412   | 274,728    | 265,303   |
| Selling, general, and administrative                               | 158,058      | 134,940   | 314,372    | 277,905   |
| Depreciation and amortization                                      | 10,967       | 10,505    | 22,894     | 20,337    |
| Total operating expenses   | 303,142      | 273,857   | 611,994    | 563,545   |
| Income from operations   | 57,453       | 54,860    | 102,758    | 93,081    |
| Interest expense, net  | (3,316 )     | (2,897 )  | (7,002 )   | (5,616 )  |
| Earnings before income taxes                                       | 54,137       | 51,963    | 95,756     | 87,465    |
| Income taxes   | (18,566 )    | (20,369 ) | (35,330 )  | (34,244 ) |
| Net earnings   | \$35,571     | \$31,594  | \$60,426   | \$53,221  |
| <br>   |              |           |            |           |
| Basic earnings per share   | \$0.80       | \$0.70    | \$1.36     | \$1.18    |
| Basic average shares outstanding                                   | 44,409       | 44,838    | 44,451     | 44,923    |
| <br>   |              |           |            |           |
| Diluted earnings per share   | \$0.79       | \$0.70    | \$1.34     | \$1.18    |
| Diluted average shares outstanding                                 | 44,936       | 45,044    | 44,989     | 45,115    |
| <br>   |              |           |            |           |
| Dividends paid per share   | \$0.3825     | \$0.3825  | \$0.7650   | \$0.6375  |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Periods ended December 31,<br>(In thousands)            | Three Months |          | Six Months |          |
|---|--------------|----------|------------|----------|
|   | 2012         | 2011     | 2012       | 2011     |
| Net earnings  | \$35,571     | \$31,594 | \$60,426   | \$53,221 |
| Other comprehensive income, net of income taxes         |              |          |            |          |
| Pension and other postretirement benefit plans activity | 364          | 228      | 728        | 456      |
| Other comprehensive income, net of income taxes         | 364          | 228      | 728        | 456      |
| Comprehensive income                                    | \$35,935     | \$31,822 | \$61,154   | \$53,677 |

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<br>Stock - \$1<br>par value | Class B<br>Stock - \$1<br>par value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total     |
|---|------------------------------------|-------------------------------------|----------------------------------|----------------------|---|-----------|
| Balance at June 30, 2012                | \$35,791                           | \$8,716                             | \$53,275                         | \$722,778            | \$ (23,115 )                                  | \$797,445 |
| Net earnings                            | —                                  | —                                   | —                                | 60,426               | —   | 60,426    |
| Other comprehensive income, net         | —                                  | —                                   | —                                | —                    | 728   | 728       |
| Share-based incentive plan transactions | 609                                | —                                   | 11,458                           | —                    | —   | 12,067    |
| Purchases of Company stock              | (743 )                             | (7 )                                | (23,843 )                        | (878 )               | —   | (25,471 ) |
| Share-based compensation                | —                                  | —                                   | 7,580                            | —                    | —   | 7,580     |
| Conversion of Class B to common stock   | 361                                | (361 )                              | —                                | —                    | —   | —         |
| Dividends paid                          |                                    |                                     |                                  |                      |   |           |
| Common stock                            | —                                  | —                                   | —                                | (27,589 )            | —   | (27,589 ) |
| Class B stock                           | —                                  | —                                   | —                                | (6,540 )             | —   | (6,540 )  |
| Tax benefit from incentive plans        | —                                  | —                                   | (1,294 )                         | —                    | —   | (1,294 )  |
| Balance at December 31, 2012            | \$36,018                           | \$8,348                             | \$47,176                         | \$748,197            | \$ (22,387 )                                  | \$817,352 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Six months ended December 31,<br>(In thousands)                                    | 2012     | 2011     |
|--|----------|----------|
| Cash flows from operating activities   |          |          |
| Net earnings   | \$60,426 | \$53,221 |
| Adjustments to reconcile net earnings to net cash provided by operating activities |          |          |
| Depreciation   | 17,202   | 15,161   |
| Amortization   | 5,692    | 5,176    |
| Share-based compensation   | 7,580    | 7,632    |
| Deferred income taxes  | 22,277   | 18,123   |
| Amortization of broadcast rights   | 5,014    | 6,213    |
| Payments for broadcast rights  | (6,487)  | (7,570)  |
| Excess tax benefits from share-based payments                                      | (1,519)  | (83)     |
| Changes in assets and liabilities  | (29,802) | (29,126) |
| Net cash provided by operating activities  | 80,383   | 68,747   |
| Cash flows from investing activities   |          |          |
| Acquisitions of and investments in businesses                                      | (6,047)  | (55,548) |
| Additions to property, plant, and equipment  | (13,659) | (26,621) |
| Other  | —        | (1,563)  |
| Net cash used in investing activities  | (19,706) | (83,732) |
| Cash flows from financing activities   |          |          |
| Proceeds from issuance of long-term debt   | 40,000   | 85,000   |
| Repayments of long-term debt   | (55,000) | (30,000) |
| Dividends paid   | (34,129) | (28,722) |
| Purchases of Company stock   | (25,471) | (15,311) |
| Proceeds from common stock issued  | 12,067   | 2,332    |
| Excess tax benefits from share-based payments                                      | 1,519    | 83       |
| Other  | (769)    | —        |
| Net cash provided by (used in) financing activities                                | (61,783) | 13,382   |
| Net decrease in cash and cash equivalents  | (1,106)  | (1,603)  |
| Cash and cash equivalents at beginning of period                                   | 25,820   | 27,721   |
| Cash and cash equivalents at end of period   | \$24,714 | \$26,118 |

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 condensed consolidated financial statements as of December 31, 2012, and for the three and six months ended December 31, 2012 and 2011, 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, 2012, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). 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 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, 2012, filed with the United States Securities and Exchange Commission.

Recently Adopted Accounting Standards—In June 2011, the Financial Accounting Standards Board (FASB) amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. In December 2011, the FASB issued a deferral of the effective date for the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other requirements of the guidance are not affected by this deferral. The Company adopted this amended standard effective in the first quarter of fiscal 2013 by presenting the separate Condensed Consolidated Statements of Comprehensive Income immediately following the Condensed Consolidated Statements of Earnings. Because this standard only affects the display of comprehensive income and does not affect what is included in comprehensive income, its adoption did not impact our results of operations or financial position.

In September 2011, the FASB amended existing guidance related to Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If this is the case, companies will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The Company adopted this guidance as of July 1, 2012, and it is effective for the Company's May 31, 2013, annual impairment test. The adoption of this guidance did not have an impact on our results of operations or financial position.

In July 2012, the FASB amended existing guidance related to Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This guidance amends the impairment test for indefinite

lived intangible assets other than goodwill by allowing companies to first assess qualitative factors to determine if it is more likely than not that an indefinite lived intangible asset is impaired and whether it is necessary to perform the impairment test of comparing the carrying amount with the recoverable amount of the indefinite lived intangible asset. This guidance is effective for interim and annual periods beginning after September 15, 2012. The Company adopted this guidance as of October 1, 2012, and it will be effective for the Company's May 31, 2013, annual impairment test. The adoption of this guidance did not have an impact on our results of operations or financial position.

## 2. Acquisitions

Effective October 1, 2012, Meredith acquired the remaining 49 percent of the outstanding stock of Living the Country Life, LLC. The results of Living the Country Life's operations have been included in the consolidated financial statements since that date. The cash purchase price was \$1.4 million.

As a result of the acquisition, the assets and liabilities of Living the Country Life, consisting primarily of accounts receivable, identifiable intangible assets, accounts payable, and other accrued expenses are now reflected in the Company's Condensed Consolidated Balance Sheet. The condensed consolidated financial statements reflect the allocation of the purchase price to the assets acquired and liabilities assumed, based on their respective fair values.

The impact of the Living the Country Life acquisition is not material to the Company's results of operations; therefore, pro forma financial information has not been provided.

Effective May 15, 2012, Meredith purchased 100 percent of the outstanding stock of ShopNation Inc., an e-commerce website. During the first six months of fiscal 2013, provisional amounts recorded to contingent consideration were decreased \$1.3 million based on an updated preliminary valuation report, with a corresponding decrease to goodwill. The Company is in the process of obtaining third-party valuations for intangible assets; thus, provisional measurements of intangible assets, goodwill, and deferred income tax balances have been used and are subject to change.

Effective March 1, 2012, Meredith acquired 100 percent of the outstanding stock of Allrecipes.com, Inc. During the first six months of fiscal 2013, provisional amounts recorded to the advertiser relationships intangible asset were decreased \$2.5 million and trademarks were increased \$2.9 million based on an updated preliminary valuation report, with a corresponding decrease to goodwill. The Company is in the process of obtaining final third-party valuations for intangible assets; thus, provisional measurements of intangible assets, goodwill, and deferred income tax balances have been used and are subject to change.

Living the Country Life, LLC, Allrecipes.com, and ShopNation are subject to legal and regulatory requirements, including but not limited to those related to taxation, in each of the jurisdictions in which they operate. The Company has conducted a preliminary assessment of liabilities arising in each of these jurisdictions, and has recognized provisional amounts in its initial accounting for the acquisitions for all identified liabilities in accordance with the business combinations guidance. However, the Company is continuing its review of these matters during the measurement period, and if new information about facts and circumstances that existed at the acquisition date identifies adjustments to the liabilities initially recognized or any additional liabilities that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional amounts initially recognized.

## 3. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, 35 percent are under the last-in first-out (LIFO) method at December 31, 2012, and 38 percent at June 30, 2012.

| (In thousands)                  | December 31,<br>2012 | June 30,<br>2012 |
|---------------------------------|----------------------|------------------|
| Raw materials                   | \$11,362             | \$13,405         |
| Work in process                 | 18,222               | 13,767           |
| Finished goods                  | 2,504                | 2,138            |
|                                 | 32,088               | 29,310           |
| Reserve for LIFO cost valuation | (7,151               | ) (6,751         |
| Inventories                     | \$24,937             | \$22,559         |

## 4. Intangible Assets and Goodwill

Intangible assets consist of the following:

| (In thousands)                                   | December 31, 2012 |                             |               | June 30, 2012   |                             |               |
|--|-------------------|-----------------------------|---------------|-----------------|-----------------------------|---------------|
|  | Gross<br>Amount   | Accumulated<br>Amortization | Net<br>Amount | Gross<br>Amount | Accumulated<br>Amortization | Net<br>Amount |
| Intangible assets<br>subject to amortization     |                   |                             |               |                 |                             |               |
| National media                                   |                   |                             |               |                 |                             |               |
| Advertiser relationships                         | \$7,452           | \$(2,481                    | ) \$4,971     | \$9,952         | \$(1,475                    | ) \$8,477     |
| Customer lists                                   | 14,887            | (9,700                      | ) 5,187       | 14,437          | (8,203                      | ) 6,234       |
| Other  | 11,105            | (2,251                      | ) 8,854       | 10,605          | (1,509                      | ) 9,096       |
| Local media                                      |                   |                             |               |                 |                             |               |
| Network affiliation agreements                   | 218,559           | (115,087                    | ) 103,472     | 218,559         | (112,641                    | ) 105,918     |
| Total  | \$252,003         | \$(129,519                  | ) 122,484     | \$253,553       | \$(123,828                  | ) 129,725     |
| Intangible assets not<br>subject to amortization |                   |                             |               |                 |                             |               |
| National media                                   |                   |                             |               |                 |                             |               |
| Internet domain names                            |                   |                             | 1,916         |                 |                             | 1,916         |
| Trademarks                                       |                   |                             | 158,446       |                 |                             | 155,546       |
| Local media                                      |                   |                             |               |                 |                             |               |
| FCC licenses                                     |                   |                             | 299,076       |                 |                             | 299,076       |
| Total  |                   |                             | 459,438       |                 |                             | 456,538       |
| Intangible assets, net                           |                   |                             | \$581,922     |                 |                             | \$586,263     |

Amortization expense was \$5.7 million for the six months ended December 31, 2012. Annual amortization expense for intangible assets is expected to be as follows: \$11.7 million in fiscal 2013, \$10.8 million in fiscal 2014, \$8.2 million in fiscal 2015, \$6.8 million in fiscal 2016, and \$5.9 million in fiscal 2017.

Changes in the carrying amount of national media goodwill were as follows:

| Six months ended December 31,<br>(In thousands) | 2012      | 2011      |
|---|-----------|-----------|
| Balance at beginning of period                  | \$733,127 | \$525,034 |
| Acquisitions                                    | 81        | 41,860    |
| Balance at end of period                        | \$733,208 | \$566,894 |

#### 5. Restructuring Accrual

Changes in the Company's restructuring accrual were as follows:

| Six months ended December 31,<br>(In thousands) | 2012     | 2011    |
|---|----------|---------|
| Balance at beginning of period                  | \$10,644 | \$8,042 |
| Severance accrual                               | 7,382    | —       |
| Vacated leased space accrual                    | 463      | —       |
| Cash payments                                   | (3,921)  | (5,241) |
| Reversal of excess accrual                      | (827)    | —       |
| Balance at end of period                        | \$13,741 | \$2,801 |

In December 2012, management committed to a performance improvement plan related primarily to business realignments that included selected workforce reductions. In connection with this plan, in the second quarter of fiscal 2013, the Company recorded a pre-tax restructuring charge of \$7.8 million including severance and benefit costs of \$7.4 million related to the involuntary termination of employees and an accrual for vacated lease space of \$0.4 million. The majority of severance costs will be paid out over the next 12 months. The Company also recorded \$0.8 million in reversals of excess restructuring reserves accrued in prior fiscal years. The restructuring charge and credit for the reversal of excess restructuring reserves are recorded in the selling, general, and administrative line in the Condensed Consolidated Statement of Earnings.

## 6. Long-term Debt

Long-term debt consists of the following:

| (In thousands)   | December 31,<br>2012 | June 30,<br>2012 |
|--|----------------------|------------------|
| Variable-rate credit facilities                            |                      |                  |
| Asset-backed bank facility of \$100 million, due 4/24/2015 | \$ 70,000            | \$ 65,000        |
| Revolving credit facility of \$150 million, due 9/12/2017  | 20,000               | 40,000           |
| Private placement notes                                    |                      |                  |
| 6.70% senior notes, due 7/13/2013                          | 50,000               | 50,000           |
| 7.19% senior notes, due 7/13/2014                          | 25,000               | 25,000           |
| 2.62% senior notes, due 3/1/2015                           | 50,000               | 50,000           |
| 3.04% senior notes, due 3/1/2016                           | 50,000               | 50,000           |
| 3.04% senior notes, due 3/1/2017                           | 50,000               | 50,000           |
| 3.04% senior notes, due 3/1/2018                           | 50,000               | 50,000           |
| Total long-term debt                                       | 365,000              | 380,000          |
| Current portion of long-term debt                          | (50,000 )            | (105,000 )       |
| Long-term debt   | \$ 315,000           | \$ 275,000       |

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, 2012, \$143.9 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, 3.25 percent at December 31, 2012, 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. In September 2012, we renewed our asset-backed bank facility for an additional two-year period on terms, other than improved pricing, substantially similar to those previously in place. The renewed facility will expire in April 2015.

In September 2012, we extended our revolving credit facility for a new five-year period on terms, other than improved pricing, substantially similar to those previously in place. The amended facility will expire in September 2017.



## 7. Pension and Postretirement Benefit Plans

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

| Periods ended December 31,<br>(In thousands) | Three Months |          | Six Months |          |
|--|--------------|----------|------------|----------|
|  | 2012         | 2011     | 2012       | 2011     |
| <b>Pension benefits</b>                      |              |          |            |          |
| Service cost                                 | \$2,525      | \$2,359  | \$5,050    | \$4,718  |
| Interest cost                                | 1,228        | 1,497    | 2,456      | 2,994    |
| Expected return on plan assets               | (2,366 )     | (2,504 ) | (4,732 )   | (5,008 ) |
| Prior service cost amortization              | 90           | 92       | 180        | 184      |
| Actuarial loss amortization                  | 812          | 401      | 1,625      | 802      |
| Net periodic benefit costs                   | \$2,289      | \$1,845  | \$4,579    | \$3,690  |
| <b>Postretirement benefits</b>               |              |          |            |          |
| Service cost                                 | \$94         | \$113    | \$188      | \$226    |
| Interest cost                                | 153          | 240      | 306        | 480      |
| Prior service cost amortization              | (134 )       | (134 )   | (268 )     | (268 )   |
| Actuarial loss amortization                  | —            | 15       | —          | 30       |
| Net periodic benefit costs                   | \$113        | \$234    | \$226      | \$468    |

## 8. Earnings per Share

The following table presents the calculations of earnings per share:

| Periods ended December 31,<br>(In thousands except per share data) | Three Months |          | Six Months |          |
|--|--------------|----------|------------|----------|
|  | 2012         | 2011     | 2012       | 2011     |
| Net earnings   | \$35,571     | \$31,594 | \$60,426   | \$53,221 |
| Basic average shares outstanding                                   | 44,409       | 44,838   | 44,451     | 44,923   |
| Dilutive effect of stock options and equivalents                   | 527          | 206      | 538        | 192      |
| Diluted average shares outstanding                                 | 44,936       | 45,044   | 44,989     | 45,115   |
| <b>Earnings per share</b>  |              |          |            |          |
| Basic earnings per share   | \$0.80       | \$0.70   | \$1.36     | \$1.18   |
| Diluted earnings per share   | 0.79         | 0.70     | 1.34       | 1.18     |

For the three months ended December 31, 2012 and 2011, antidilutive options excluded from the above calculations totaled 3,320,000 (with a weighted average exercise price of \$45.60) and 5,770,000 (with a weighted average exercise price of \$38.69), respectively. For the six months ended December 31, 2012 and 2011, antidilutive options excluded from the above calculations totaled 3,272,000 (with a weighted average exercise price of \$45.94) and 5,781,000 (with a weighted average exercise price of \$38.82), respectively.

In the six months ended December 31, 2012 and 2011, options were exercised to purchase 366,880 and 6,000 common shares, respectively.



## 9. Fair Value Measurements

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 \$14.1 million and \$13.6 million, respectively, as of December 31, 2012, and \$10.4 million and \$10.2 million, respectively, as of June 30, 2012. 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 carrying amount and estimated fair value of long-term debt were \$365.0 million and \$369.2 million, respectively, as of December 31, 2012, and \$380.0 million and \$384.9 million, respectively, as of June 30, 2012. The fair value of 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.

## 10. 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, 2012. 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 December 31,<br>(In thousands) | Three Months |           | Six Months |           |
|--|--------------|-----------|------------|-----------|
|  | 2012         | 2011      | 2012       | 2011      |
| Revenues                                     |              |           |            |           |
| National media                               | \$249,436    | \$244,315 | \$516,406  | \$502,927 |
| Local media                                  | 111,159      | 84,402    | 198,346    | 153,699   |
| Total revenues                               | \$360,595    | \$328,717 | \$714,752  | \$656,626 |
| Operating profit                             |              |           |            |           |
| National media                               | \$22,177     | \$35,797  | \$51,601   | \$71,801  |
| Local media                                  | 44,711       | 27,156    | 72,355     | 38,213    |
| Unallocated corporate                        | (9,435 )     | (8,093 )  | (21,198 )  | (16,933 ) |
| Income from operations                       | \$57,453     | \$54,860  | \$102,758  | \$93,081  |
| Depreciation and amortization                |              |           |            |           |
| National media                               | \$4,475      | \$3,832   | \$9,865    | \$7,193   |
| Local media                                  | 6,070        | 6,175     | 12,172     | 12,164    |
| Unallocated corporate                        | 422          | 498       | 857        | 980       |
| Total depreciation and amortization          | \$10,967     | \$10,505  | \$22,894   | \$20,337  |

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's current expectations and are subject to various uncertainties and changes in circumstances. Important factors that could cause actual results to differ materially from those described in forward-looking statements are set forth below under the heading "Forward Looking Statements."

## EXECUTIVE OVERVIEW

Meredith Corporation is the leading media and marketing company serving American women. Meredith features multiple well-known national brands—including Better Homes and Gardens, Parents, Family Circle, Allrecipes.com, Ladies' Home Journal, Fitness, More, American Baby, EveryDay with Rachael Ray, and FamilyFun—with local television brands in fast-growing markets. Meredith is the industry leader in creating content in key consumer interest areas such as home, family, food, health and wellness, and self-development. Meredith uses multiple distribution platforms—including print, television, digital, mobile, tablets, and video—to give consumers content they desire and to deliver the messages of our advertising and marketing partners. Additionally, Meredith uses our many assets to create powerful custom marketing solutions for many of the nation's top brands and companies.

Meredith operates two business segments. The national media segment consists of magazine publishing, digital and mobile media, digital and customer relationship marketing, brand licensing, database-related activities, and other related operations. The local media segment consists of 12 network-affiliated television stations, related digital and mobile media operations, and video creation operations. Both segments operate primarily in the U.S. and compete against similar media and other types of media on both a local and national basis. The national media segment accounted for 72 percent of the Company's \$714.8 million in revenues in the first six months of fiscal 2013 while the local media segment contributed 28 percent.

## NATIONAL MEDIA

Advertising revenues made up 49 percent of national media's first six months' revenues. These revenues were generated from the sale of advertising space in our magazines and on our websites to clients interested in promoting their brands, products, and services to consumers. Circulation revenues accounted for 28 percent of national media's first six months' revenues. Circulation revenues result from the sale of magazines to consumers through subscriptions and by single copy sales on newsstands in print form, primarily at major retailers and grocery/drug stores and in digital form on tablets. The remaining 23 percent of national media's revenues came from a variety of activities that included the sale of customer relationship marketing products and services and books as well as brand licensing, product sales, and other related activities. National media's major expense categories are production and delivery of publications and promotional mailings and employee compensation costs.

## LOCAL MEDIA

Local media derives the majority of its revenues—86 percent in the first six months of fiscal 2013—from the sale of advertising, both over 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

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fiscal years) than at other times. Local media's major expense categories are employee compensation and depreciation and amortization.

## FIRST SIX MONTHS FISCAL 2013 FINANCIAL OVERVIEW

Local media group revenues increased 29 percent and operating profit rose to \$72.4 million from \$38.2 million in the year-ago period reflecting increased cyclical political advertising revenues.

National media revenues increased 3 percent primarily reflecting the inclusion of revenues of the prior fiscal year acquisitions of EveryDay with Rachael Ray, FamilyFun, and Allrecipes.com. National media operating profit decreased 28 percent primarily due to restructuring charges recorded in the second quarter as discussed below and due to declines in operating results in our magazine, customer relationship marketing, and digital and mobile media operations.

In the second quarter of fiscal 2013, management committed to a performance improvement plan related primarily to business realignments that included selected workforce reductions. In connection with this plan, the Company recorded a pre-tax restructuring charge of \$7.8 million. This charge includes \$7.4 million for severance and benefit costs and a vacated lease accrual of \$0.4 million. The Company also recorded \$0.8 million in reversals of excess restructuring reserves accrued in prior years.

Diluted earnings per share increased 14 percent to \$1.34 from \$1.18 in the prior-year first six months.

## ACQUISITIONS

In fiscal 2013, the Company acquired the remaining interest in Living the Country Life, LLC. This acquisition is not material to the Company's condensed consolidated financial statements. Effective July 1, 2011, Meredith acquired the EatingWell Media Group. Also during fiscal 2012, the Company completed the following acquisitions: the October 2011 acquisition of EveryDay with Rachael Ray magazine and its related digital assets; the January 2012 acquisition of FamilyFun and its related assets; the March 2012 acquisition of Allrecipes.com; and the May 2012 acquisition of ShopNation, collectively the "Fiscal 2012 Mid-Year Acquisitions." The results of these acquisitions have been included in the Company's consolidated operating results since their respective acquisition dates. See Note 2 to the condensed consolidated financial statements for further information.

## USE OF NON-GAAP FINANCIAL MEASURES

These condensed 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 results includes references to earnings 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 segment. 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 segment 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 December 31,<br>(In thousands except per share data) | 2012       | 2011       | Change |   |
|---|------------|------------|--------|---|
| Total revenues  | \$360,595  | \$328,717  | 10     | % |
| Operating expenses  | (303,142 ) | (273,857 ) | 11     | % |
| Income from operations  | \$57,453   | \$54,860   | 5      | % |
| Net earnings  | \$35,571   | \$31,594   | 13     | % |
| Diluted earnings per share  | 0.79       | 0.70       | 13     | % |
| <br>  |            |            |        |   |
| Six months ended December 31,<br>(In thousands except per share data)   | 2012       | 2011       | Change |   |
| Total revenues  | \$714,752  | \$656,626  | 9      | % |
| Operating expenses  | (611,994 ) | (563,545 ) | 9      | % |
| Income from operations  | \$102,758  | \$93,081   | 10     | % |
| Net earnings  | \$60,426   | \$53,221   | 14     | % |
| Diluted earnings per share  | 1.34       | 1.18       | 14     | % |

The following sections provide an analysis of the results of operations for the national media and local media segments and an analysis of the consolidated results of operations for the three and six months ended December 31, 2012, 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 (Form 10 K) for the year ended June 30, 2012.

In the following discussion, references to comparable results for the three and six months ended December 31, 2012, as compared to the prior-year periods exclude the impact of the Fiscal 2012 Mid-Year Acquisitions that occurred during fiscal 2012.

## NATIONAL MEDIA

National media operating results were as follows:

| Three months ended December 31,<br>(In thousands) | 2012       | 2011       | Change |    |
|---|------------|------------|--------|----|
| Advertising                                       | \$120,133  | \$107,180  | 12     | %  |
| Circulation                                       | 67,398     | 63,902     | 5      | %  |
| Other   | 61,905     | 73,233     | (15)   | )% |
| Total revenues                                    | 249,436    | 244,315    | 2      | %  |
| Operating expenses                                | (227,259 ) | (208,518 ) | 9      | %  |
| Operating profit                                  | \$22,177   | \$35,797   | (38)   | )% |
| Operating profit margin                           | 8.9        | % 14.7     | %      |    |
| Six months ended December 31,<br>(In thousands)   | 2012       | 2011       | Change |    |
| Advertising                                       | \$252,797  | \$231,637  | 9      | %  |
| Circulation                                       | 142,887    | 130,491    | 9      | %  |
| Other   | 120,722    | 140,799    | (14)   | )% |
| Total revenues                                    | 516,406    | 502,927    | 3      | %  |
| Operating expenses                                | (464,805 ) | (431,126 ) | 8      | %  |
| Operating profit                                  | \$51,601   | \$71,801   | (28)   | )% |
| Operating profit margin                           | 10.0       | % 14.3     | %      |    |

## Revenues

National media advertising revenues increased 12 percent in the second quarter and 9 percent in the first six months of fiscal 2013. Magazine advertising revenues declined 1 percent in both the second quarter and in the first six months of fiscal 2013. Total advertising pages decreased in the low-single digits on a percentage basis both in the second quarter and in the first six months of fiscal 2013. On a comparable basis, magazine advertising revenues decreased 10 percent in the second quarter and 11 percent in the first six months of fiscal 2013 and total advertising pages decreased in the low-teens on a percentage basis in both periods with most titles showing declines. Among our core advertising categories, demand was weaker for the majority of categories. Online advertising revenues in our digital and mobile media operations more than doubled in the second quarter and in the first six months of fiscal 2013. On a comparable basis, online advertising revenues increased 4 percent in the second quarter and 14 percent in the first six months of fiscal 2013.

Magazine circulation revenues increased 5 percent in the second quarter and 9 percent in the first six months of fiscal 2013. Comparable magazine circulation revenues declined 4 percent in the second quarter and 2 percent in the first six months of fiscal 2013. For both periods, comparable subscription revenues were flat while comparable newsstand revenues declined. The decline in newsstand revenues was primarily due to there being fewer special interest media issues on the newsstand in both the second quarter and first six months of fiscal 2013 and due to one less issue in the second quarter and two less issues in the first six months of Family Circle due to a previously announced reduction in frequency and timing of the issues.

Other revenues decreased 15 percent in the second quarter and 14 percent in the first six months of fiscal 2013. This decrease was primarily due to Meredith Xcelerated Marketing revenues which were down approximately 20 percent on a percentage basis both in the second quarter and in the first six months of fiscal 2013 due primarily to reductions in programs from certain clients. Brand licensing revenues declined 1 percent both in the second quarter and in the first six months of fiscal 2013.



### Operating Expenses

National media operating expenses increased 9 percent in the second quarter and 8 percent in the first six months of fiscal 2013. On a comparable basis, national media operating expenses decreased 2 percent in the second quarter and 5 percent in the first six months of fiscal 2013. Paper, processing, postage, and art and manuscript costs declined primarily due to the decrease in advertising pages. In addition to the decrease in the volume of paper used, paper expense also decreased due to mid- to high-single digits declines in average paper prices as compared to the year-ago periods. Employee payroll and related costs also declined in both periods primarily due to performance improvement plans implemented in prior years. In accord with the decrease in MXM's revenues, customer relationship marketing production expenses also declined. These declines were partially offset by increased circulation expenses.

In the second quarter of fiscal 2013, the national media segment recorded a restructuring charge of \$5.9 million for severance and benefit costs and a vacated lease accrual of \$0.4 million. Partially offsetting these charges was a \$0.8 million reversal of excess restructuring accrual previously recorded by the national media segment. These items were recorded as increases and decreases, as appropriate, in selling, general, and administrative expenses.

### Operating Profit

National media operating profit declined 38 percent in the second quarter and 28 percent in the first six months of fiscal 2013 compared with the prior-year periods. Comparable national media operating profit also decreased 52 percent in the second quarter and 34 percent in the first six months of fiscal 2013. The declines in operating profit were primarily due to restructuring charges recorded in the second quarter as discussed above and declines in operating results in our magazine, customer relationship marketing, and digital and mobile media operations.

### LOCAL MEDIA

Local media operating results were as follows:

| Three months ended December 31,<br>(In thousands) | 2012       | 2011       | Change |    |
|---|------------|------------|--------|----|
| Non-political advertising                         | \$71,255   | \$75,382   | (5     | )% |
| Political advertising                             | 25,706     | 1,074      | 2,293  | %  |
| Other   | 14,198     | 7,946      | 79     | %  |
| Total revenues                                    | 111,159    | 84,402     | 32     | %  |
| Operating expenses                                | (66,448 )  | (57,246 )  | 16     | %  |
| Operating profit                                  | \$44,711   | \$27,156   | 65     | %  |
| Operating profit margin                           | 40.2 %     | 32.2 %     |        |    |
| Six months ended December 31,<br>(In thousands)   | 2012       | 2011       | Change |    |
| Non-political advertising                         | \$133,501  | \$134,659  | (1     | )% |
| Political advertising                             | 37,918     | 1,657      | 2,188  | %  |
| Other   | 26,927     | 17,383     | 55     | %  |
| Total revenues                                    | 198,346    | 153,699    | 29     | %  |
| Operating expenses                                | (125,991 ) | (115,486 ) | 9      | %  |
| Operating profit                                  | \$72,355   | \$38,213   | 89     | %  |
| Operating profit margin                           | 36.5 %     | 24.9 %     |        |    |

### Revenues

Local media revenues increased 32 percent in the second quarter and 29 percent in the first six months fiscal 2013 primarily reflecting higher political advertising related to the November 2012 elections. Net political advertising revenues totaled \$25.7 million in the second quarter and \$37.9 million in the first six months of the current fiscal year

compared with \$1.1 million in the prior-year second quarter and \$1.7 million in the prior-year six-month

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period. Fluctuations in political advertising revenues at our stations and throughout the broadcasting industry generally follow the biennial cycle of election campaigns. Political advertising displaces a certain amount of non-political advertising; therefore, the revenues are not entirely incremental. Non-political advertising revenues declined 5 percent in the second quarter and 1 percent in the first six months of fiscal 2013 as political advertising displaced a certain amount of non-political advertising. Local non-political advertising revenues decreased 4 percent in the second quarter and 1 percent for the first six months of fiscal 2013. National non-political advertising decreased 10 percent as compared to the prior-year second quarter and 2 percent for the first half of fiscal 2013. Online advertising, a small but growing percentage of non-political advertising revenues, increased 14 percent and 16 percent as compared to the prior-year second quarter and first six months of fiscal 2012, respectively.

Other revenue increased 79 percent in the second quarter and 55 percent in the six-month period primarily reflecting increased retransmission fees and station management fees.

#### Operating Expenses

Local media operating expenses increased 16 percent in the second quarter and 9 percent in the first six months of fiscal 2013 primarily due to increased programming fees paid to the networks partially offset by a reduction in film amortization expense and legal services costs. In addition, in the second quarter of fiscal 2013, the local media segment recorded a restructuring charge of \$1.5 million in severance and related benefits costs. The restructuring charge was recorded in selling, general, and administrative expenses.

#### Operating Profit

Local media operating profit increased 65 percent in the second quarter and 89 percent in the first half of fiscal 2013 reflecting the significant increase in political advertising revenues as well as an increase in other revenues.

#### Supplemental Disclosure of Local Media EBITDA

Meredith's local media EBITDA is defined as local media operating profit plus depreciation and amortization expense. EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for GAAP financial measures. See the discussion of management's rationale for the use of EBITDA in the preceding Executive Overview section. Local media EBITDA and EBITDA margin were as follows:

| Three months ended December 31,<br>(In thousands) | 2012       |   | 2011       |   |
|---|------------|---|------------|---|
| Revenues  | \$ 111,159 |   | \$ 84,402  |   |
| Operating profit                                  | \$ 44,711  |   | \$ 27,156  |   |
| Depreciation and amortization                     | 6,070      |   | 6,175      |   |
| EBITDA  | \$ 50,781  |   | \$ 33,331  |   |
| EBITDA margin                                     | 45.7       | % | 39.5       | % |
| <br>  |            |   |            |   |
| Six months ended December 31,<br>(In thousands)   | 2012       |   | 2011       |   |
| Revenues  | \$ 198,346 |   | \$ 153,699 |   |
| Operating profit                                  | \$ 72,355  |   | \$ 38,213  |   |
| Depreciation and amortization                     | 12,172     |   | 12,164     |   |
| EBITDA  | \$ 84,527  |   | \$ 50,377  |   |
| EBITDA margin                                     | 42.6       | % | 32.8       | % |



## UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses are general corporate overhead expenses not attributable to the operating groups. These expenses were as follows:

| Unallocated Corporate Expenses<br>(In thousands) | 2012    | 2011    | Change |   |
|--|---------|---------|--------|---|
| Three months ended December 31,                  | \$9,435 | \$8,093 | 17     | % |
| Six months ended December 31,                    | 21,198  | 16,933  | 25     | % |

Unallocated corporate expenses increased 17 percent in the second quarter and 25 percent in the first six months of fiscal 2013 compared with the respective prior-year periods. For the second quarter, increases in consulting costs, medical costs, building rent, and pension expenses more than offset reductions in performance-based incentive accruals and share-based compensation. For the first six months of fiscal 2013 increases in medical costs, consulting costs, pension expenses, and performance-based incentive accruals more than offset a reduction in building rent.

## CONSOLIDATED

Consolidated Operating Expenses  
Consolidated operating expenses were as follows:

|   |           |           |        |   |
|---|-----------|-----------|--------|---|
| Three months ended December 31,<br>(In thousands) | 2012      | 2011      | Change |   |
| Production, distribution, and editorial           | \$134,117 | \$128,412 | 4      | % |
| Selling, general, and administrative              | 158,058   | 134,940   | 17     | % |
| Depreciation and amortization                     | 10,967    | 10,505    | 4      | % |
| Operating expenses                                | \$303,142 | \$273,857 | 11     | % |
| Six months ended December 31,<br>(In thousands)   | 2012      | 2011      | Change |   |
| Production, distribution, and editorial           | \$274,728 | \$265,303 | 4      | % |
| Selling, general, and administrative              | 314,372   | 277,905   | 13     | % |
| Depreciation and amortization                     | 22,894    | 20,337    | 13     | % |
| Operating expenses                                | \$611,994 | \$563,545 | 9      | % |

Production, distribution, and editorial costs increased 4 percent as compared to the prior-year second quarter and as compared to the prior-year first six months. On a comparable basis, production, distribution, and editorial costs decreased 2 percent in the second quarter and 4 percent in the first six months of fiscal 2013. Declines in national media paper, processing, postage, manuscript and art expenses, and customer relationship marketing production costs and local media film amortization more than offset an increase in local media programming fees paid to the networks.

Selling, general, and administrative expenses increased 17 percent in the second quarter and 13 percent in the first six months of fiscal 2013. Comparable selling, general, and administrative expenses increased 7 percent in the second quarter and 2 percent in the first six months of fiscal 2013. For the second quarter, increases in consulting costs, medical costs, building rent, pension expenses and circulation expenses more than offset reductions in employee compensation costs and share-based compensation. For the first six months of fiscal 2013, increases in medical costs, consulting costs, pension expenses, circulation expenses, and performance-based incentive accruals more than offset a reduction in building rent and employee compensation costs. In the second quarter of fiscal 2013,





the Company recorded \$7.4 million for severance and benefit costs and a vacated lease accrual of \$0.4 million related to business realignments. Partially offsetting these charges was a \$0.8 million reversal of excess restructuring accrual previously recorded by the national media segment.

Depreciation and amortization expense increased 4 percent in the second quarter and 13 percent in the first six months of fiscal 2013. On a comparable basis, depreciation and amortization decreased 6 percent in the second quarter and was flat in the first six months of fiscal 2013.

#### Income from Operations

Income from operations increased 5 percent in the second quarter and 10 percent in the first six months of fiscal 2013. Comparable income from operations decreased 4 percent in the second quarter and increased 6 percent in the first six months of fiscal 2013. For the second quarter of fiscal 2013, the decrease is primarily due to the restructuring charge partially offset by higher operating profits in our local media segment. For the six-month period, revenue growth and higher operating profits in our local media segment more than offset the restructuring charge. In addition, declines in operating results in our magazine, customer relationship marketing, and digital and mobile media operations as well as increased unallocated corporate expenses contributed to the changes.

#### Net Interest Expense

Net interest expense increased to \$3.3 million in the fiscal 2013 second quarter compared with \$2.9 million in the prior-year second quarter. For the six months ended December 31, 2012, net interest expense was \$7.0 million versus \$5.6 million in the first six months of fiscal 2013. Average long-term debt outstanding was \$383 million in the second quarter of fiscal 2013 and \$384 million for the six-month period compared with \$258 million in the prior year second quarter and \$240 million in the prior year six-month period. The Company's approximate weighted average interest rate was 3.6 percent in the first six months of fiscal 2013 and 4.7 percent in the first six months of fiscal 2012.

#### Income Taxes

Our effective tax rate was 34.3 percent in the second quarter and 36.9 percent in the first six months of fiscal 2013 as compared to 39.2 percent in the second quarter and in the first six months of fiscal 2012. The decrease in the effective tax rate is primarily due to tax benefits from the resolution of state and local tax contingencies.

#### Net Earnings and Earnings per Share

Net earnings were \$35.6 million (\$0.79 per diluted share) in the quarter ended December 31, 2012, up 13 percent from \$31.6 million (\$0.70 per diluted share) in the prior-year second quarter. For the six months ended December 31, 2012, earnings were \$60.4 million (\$1.34 per diluted share), an increase of 14 percent from prior-year six months earnings of \$53.2 million (\$1.18 per diluted share). The improvement was primarily the result of revenue growth and higher operating profit in our local media segment, partially offset by declines in operating results in our magazine, customer relationship marketing, and digital and mobile media operations as well as increased unallocated corporate expenses. Both average basic and diluted shares outstanding decreased slightly in the quarter.

### LIQUIDITY AND CAPITAL RESOURCES

| Six months ended December 31,<br>(In thousands)       | 2012       | 2011       | Change |    |
|---|------------|------------|--------|----|
| Net earnings  | \$60,426   | \$53,221   | 14     | %  |
| Cash flows from operating activities                  | \$80,383   | \$68,747   | 17     | %  |
| Cash flows used in investing activities               | (19,706 )  | (83,732 )  | (76)   | )% |
| Cash flows provided by (used in) financing activities | (61,783 )  | 13,382     | (562)  | )% |
| Net decrease in cash and cash equivalents             | \$(1,106 ) | \$(1,603 ) | (31)   | )% |



## OVERVIEW

Meredith's primary source of liquidity is cash generated by operating activities. Debt financing is typically used for significant acquisitions. We expect cash on hand, internally generated cash flow, and available credit from financing agreements will provide adequate funds for operating and recurring cash needs (e.g., working capital, capital expenditures, debt repayments, and cash dividends) into the foreseeable future. As of December 31, 2012, we have up to \$130.0 million remaining of additional available borrowings under our revolving credit facility and up to \$30.0 million of additional available borrowings under our asset-backed bank facility (depending on levels of accounts receivable). While there are no guarantees that we will be able to replace current credit agreements when they expire, we expect to be able to do so.

## SOURCES AND USES OF CASH

Cash and cash equivalents decreased \$1.1 million in the first six months of fiscal 2013; they decreased \$1.6 million in the first six months of fiscal 2012.

### Operating Activities

The largest single component of operating cash inflows is cash received from advertising customers. Other sources of operating cash inflows include cash received from magazine circulation sales and other revenue transactions such as customer relationship marketing, brand licensing, and product sales. Operating cash outflows include payments to vendors and employees and payments of interest and income taxes. Our most significant vendor payments are for production and delivery of publications and promotional mailings, employee compensation costs and benefits, broadcasting programming rights, and other services and supplies.

Cash provided by operating activities totaled \$80.4 million in the first six months of fiscal 2013 compared with \$68.7 million in the first six months of fiscal 2012. The increase is primarily due to higher net earnings and other changes in working capital.

### Investing Activities

Investing cash inflows generally include proceeds from the sale of assets or a business. Investing cash outflows generally include payments for the acquisition of new businesses; investments; and additions to property, plant, and equipment.

Net cash used by investing activities decreased to \$19.7 million in the first six months of fiscal 2013 from \$83.7 million in the prior-year period. The decrease primarily reflects more cash used in the prior year for acquisitions as well as higher spending for additions to property, plant, and equipment due to a move into our new leased facilities in New York in the prior fiscal year.

### Financing Activities

Financing cash inflows generally include borrowings under debt agreements and proceeds from the exercise of common stock options issued under share-based compensation plans. Financing cash outflows generally include the repayment of long-term debt, the payment of dividends, and repurchases of Company stock.

Net cash used in financing activities totaled \$61.8 million in the six months ended December 31, 2012, compared with net cash provided by financing activities of \$13.4 million for the six months ended December 31, 2011. The change in cash used in financing activities is primarily due to net reduction of debt of \$15.0 million compared to an increase in net debt of \$55.0 million in the prior-year period. Higher dividend payments due to the increased dividend per share rate and increased purchases of Company stock also contributed to the change.

### Long-term Debt

At December 31, 2012, long-term debt outstanding totaled \$365.0 million (\$275.0 million in fixed-rate unsecured senior notes, \$70.0 million under an asset-backed bank facility, and \$20.0 million outstanding under a revolving credit facility). Of the senior notes, \$50.0 million is due in the next 12 months. We expect to repay these senior

notes with cash from operations and credit available under existing credit agreements. The weighted average effective interest rate for the fixed-rate notes was 4.01 percent. The interest rate on the asset-backed bank facility is variable based on the London Interbank Offered Rate (LIBOR) plus a fixed spread. As of December 31, 2012, the asset-backed bank facility had a capacity of up to \$100 million (depending on levels of accounts receivable). In September 2012, we renewed our asset-backed bank facility for an additional two-year period under terms, other than improved pricing, substantially similar to those previously in place. The renewed facility will expire in April 2015.

The interest rate on the revolving credit facility is variable based on LIBOR and Meredith's debt to trailing 12 month EBITDA ratio, as defined in the debt agreement. The revolving credit facility has capacity for up to \$150 million outstanding with an option to request up to another \$150 million. At December 31, 2012, \$20.0 million was outstanding under the revolving credit facility. In September 2012, we amended our revolving credit facility for a new five-year period under terms, other than improved pricing, substantially similar to those previously in place. The amended facility expires on September 12, 2017.

All of our debt agreements include financial covenants, and failure to comply with any such covenants could result in the debt becoming payable on demand. The Company was in compliance with all financial covenants at December 31, 2012.

#### Contractual Obligations

As of December 31, 2012, there had been no material changes in our contractual obligations from those disclosed in our Form 10 K for the year ended June 30, 2012.

#### Share Repurchase Program

As part of our ongoing share repurchase program, we spent \$25.5 million in the first six months of fiscal 2013 to repurchase 749,000 shares of common stock at then-current market prices. We spent \$15.3 million to repurchase 587,000 shares in the first six months of fiscal 2012. We expect to continue repurchasing shares from time to time subject to market conditions. As of December 31, 2012, \$61.7 million remained available under the current authorization for future repurchases. The status of the repurchase program is reviewed at each quarterly Board of Directors meeting. See Part II, Item 2 (c), Issuer Repurchases of Equity Securities, of this Form 10 Q for detailed information on share repurchases during the quarter ended December 31, 2012.

#### Dividends

Dividends paid in the first six months of fiscal 2013 totaled \$34.1 million, or 76.5 cents per share, compared with dividend payments of \$28.7 million, or 63.75 cents per share, in the first six months of fiscal 2012.

#### Capital Expenditures

Investment in property, plant, and equipment totaled \$13.7 million in the first six months of fiscal 2013 compared with prior-year first six months investment of \$26.6 million. Current year investment primarily relates to assets acquired in the normal course of business. The prior year investment primarily related to leasehold improvements related to our move into new leased facilities in New York along with assets acquired in the normal course of business. We have no material commitments for capital expenditures. We expect funds for future capital expenditures to come from operating activities or, if necessary, borrowings under credit agreements.

#### OTHER MATTERS

#### CRITICAL ACCOUNTING POLICIES

Meredith's critical accounting policies are summarized in our Form 10 K for the year ended June 30, 2012. As of December 31, 2012, the Company's critical accounting policies had not changed from June 30, 2012.



## ACCOUNTING AND REPORTING DEVELOPMENTS

In June 2011, the Financial Accounting Standards Board (FASB) amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. In December 2011, the FASB issued a deferral of the effective date for the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other requirements of the guidance are not affected by this deferral. The Company adopted this amended standard effective in the first quarter of fiscal 2013 by presenting the separate Condensed Consolidated Statements of Comprehensive Income immediately following the Condensed Consolidated Statements of Earnings. Because this standard only affects the display of comprehensive income and does not affect what is included in comprehensive income, its adoption did not impact our results of operations or financial position.

In September 2011, the FASB amended existing guidance related to Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If this is the case, companies will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The Company adopted this guidance as of July 1, 2012, and it is effective for the Company's May 31, 2013, annual impairment test. The adoption of this guidance did not have an impact on our results of operations or financial position.

In July 2012, the FASB amended existing guidance related to Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This guidance amends the impairment test for indefinite lived intangible assets other than goodwill by allowing companies to first assess qualitative factors to determine if it is more likely than not that an indefinite lived intangible asset is impaired and whether it is necessary to perform the impairment test of comparing the carrying amount with the recoverable amount of the indefinite lived intangible asset. This guidance is effective for interim and annual periods beginning after September 15, 2012. The Company adopted this guidance as of October 1, 2012, and it will be effective for the Company's May 31, 2013, annual impairment test. The adoption of this guidance did not have an impact on our results of operations or financial position.

## FORWARD LOOKING STATEMENTS

Except for the historical information contained herein, the matters discussed in this Form 10-Q are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. These statements are based on management's current knowledge and estimates of factors affecting the Company's operations. Readers are cautioned not to place undue reliance on such forward-looking information. Factors that could adversely affect future results include, but are not limited to, downturns in national and/or local economies; a softening of the domestic advertising market; world, national, or local events that could disrupt broadcast television; increased consolidation among major advertisers or other events depressing the level of advertising spending; the unexpected loss or insolvency of one or more major clients; the integration of acquired businesses; changes in consumer reading, purchasing and/or television viewing patterns; increases in paper, postage, printing, syndicated programming or other costs; changes in television network affiliation agreements; technological developments affecting products or methods of distribution; changes in government regulations affecting the Company's industries; increases in interest rates; and the consequences of acquisitions and/or



dispositions. Meredith's Form 10 K for the year ended June 30, 2012, includes a more complete description of the risk factors that may affect our results. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Meredith is exposed to certain market risks as a result of our use of financial instruments, in particular the potential market value loss arising from adverse changes in interest rates. The Company does not utilize financial instruments for trading purposes and does not hold any derivative financial instruments that could expose the Company to significant market risk. Readers are referred to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in the Company's Form 10 K for the year ended June 30, 2012, for a more complete discussion of these risks.

Interest Rates

We generally manage our risk associated with interest rate movements through the use of a combination of variable and fixed-rate debt. At December 31, 2012, Meredith had \$275.0 million outstanding in fixed-rate long-term debt. There are no earnings or liquidity risks associated with the Company's fixed-rate debt. The fair value of the fixed-rate debt (based on discounted cash flows reflecting borrowing rates currently available for debt with similar terms and maturities) varies with fluctuations in interest rates. A 10 percent decrease in interest rates would have changed the fair value of the fixed-rate debt to \$281.4 million from \$279.2 million at December 31, 2012.

At December 31, 2012, \$90.0 million of our debt was variable-rate debt. The Company is subject to earnings and liquidity risks for changes in the interest rate on this debt. A 10 percent increase in interest rates would increase annual interest expense by \$0.1 million.

Broadcast Rights Payable

There has been no material change in the market risk associated with broadcast rights payable since June 30, 2012.

Item 4. Controls and Procedures

Meredith's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10 Q, that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that Meredith files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to Meredith's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. There have been no significant changes in the Company's internal control over financial reporting in the quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as disclosed in Item 1A, Risk Factors, in the Company's Form 10 K for the year ended June 30, 2012.



## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Issuer Repurchases of Equity Securities

The following table sets forth information with respect to the Company's repurchases of common stock during the quarter ended December 31, 2012.

| Period                             | (a)<br>Total number of<br>shares<br>purchased <sup>1, 2</sup> | (b)<br>Average price<br>paid<br>per share | (c)<br>Total number of shares<br>purchased as part of<br>publicly<br>announced programs | (d)<br>Approximate dollar value<br>of shares that may yet<br>be purchased under<br>programs<br>(in thousands) |
|------------------------------------|---|---|---|---|
| October 1 to<br>October 31, 2012   | 72,592  | \$ 34.14                                  | 72,592  | \$ 66,355   |
| November 1 to<br>November 30, 2012 | 107,960   | 31.54                                     | 107,960   | 62,949  |
| December 1 to<br>December 31, 2012 | 37,856  | 33.90                                     | 37,856  | 61,666  |
| Total                              | 218,408   |   | 218,408   |   |

<sup>1</sup> Total number of shares purchased includes 1,363 shares of Class B common stock in December 2012.

<sup>2</sup> The number of shares purchased includes 3,468 shares in October 2012, 6,843 shares in November 2012, and 21,893 shares in December 2012 delivered or deemed to be delivered to us on tender of stock in payment for the exercise price of options and shares reacquired pursuant to tax withholding on option exercises and the vesting of restricted shares. These shares are included as part of our repurchase program and reduce the repurchase authority granted by our Board. The number of shares repurchased excludes shares we reacquired pursuant to forfeitures of restricted stock.

In October 2011, Meredith announced the Board of Directors had authorized the repurchase of up to \$100.0 million in additional shares of the Company's stock through public and private transactions.

For more information on the Company's share repurchase program, see Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Share Repurchase Program."

Item 6. Exhibits

- |         |  |
|---------|--|
| 10.1    | Meredith Corporation Employee Stock Purchase Plan of 2002, as amended is incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8 K filed November 13, 2012. |
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.   |
| 31.2    | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.   |
| 32      | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                 |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

SIGNATURE

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

MEREDITH CORPORATION  
Registrant

/s/ Joseph Ceryanec  
Joseph Ceryanec  
Vice President - Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: January 24, 2013

INDEX TO ATTACHED EXHIBITS

| Exhibit Number | Item   |
|----------------|--|
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