

MEREDITH CORP

Form 10-Q

October 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 September 30, 2013

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 September 30, 2013

Common shares	36,388,802
Class B shares	8,314,326
Total common and Class B shares	44,703,128

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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	September 30, 2013	June 30, 2013
(In thousands)		
Current assets		
Cash and cash equivalents	\$16,368	\$27,674
Accounts receivable, net	237,025	232,305
Inventories	28,974	28,386
Current portion of subscription acquisition costs	96,758	97,982
Current portion of broadcast rights	8,402	2,831
Other current assets	20,854	18,514
Total current assets	408,381	407,692
Property, plant, and equipment	464,916	464,255
Less accumulated depreciation	(283,236 )	(277,938 )
Net property, plant, and equipment	181,680	186,317
Subscription acquisition costs	95,646	99,433
Broadcast rights	4,283	3,634
Other assets	71,412	69,848
Intangible assets, net	580,908	584,281
Goodwill	788,786	788,854
Total assets	\$2,131,096	\$2,140,059
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$25,000	\$50,000
Current portion of long-term broadcast rights payable	8,638	4,089
Accounts payable	62,047	78,458
Accrued expenses and other liabilities	111,639	132,676
Current portion of unearned subscription revenues	189,226	191,448
Total current liabilities	396,550	456,671
Long-term debt	345,000	300,000
Long-term broadcast rights payable	6,082	5,096
Unearned subscription revenues	158,042	163,809
Deferred income taxes	255,977	247,487
Other noncurrent liabilities	111,667	112,700
Total liabilities	1,273,318	1,285,763
Shareholders' equity		
Series preferred stock	—	—
Common stock	36,389	36,242
Class B stock	8,314	8,324
Additional paid-in capital	47,398	50,170
Retained earnings	781,628	775,901
Accumulated other comprehensive loss	(15,951 )	(16,341 )

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Total shareholders' equity	857,778	854,296
Total liabilities and shareholders' equity	\$2,131,096	\$2,140,059

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Three months ended September 30, (In thousands except per share data)	2013	2012
Revenues		
Advertising	\$198,547	\$207,122
Circulation	75,734	75,489
All other	82,171	71,546
Total revenues	356,452	354,157
Operating expenses		
Production, distribution, and editorial	140,777	140,611
Selling, general, and administrative	161,072	156,314
Depreciation and amortization	11,795	11,927
Total operating expenses	313,644	308,852
Income from operations	42,808	45,305
Interest expense, net	(2,713)	(3,686)
Earnings before income taxes	40,095	41,619
Income taxes	(16,054)	(16,764)
Net earnings	\$24,041	\$24,855
Basic earnings per share	\$0.54	\$0.56
Basic average shares outstanding	44,648	44,494
Diluted earnings per share	\$0.53	\$0.55
Diluted average shares outstanding	45,432	45,043
Dividends paid per share	\$0.4075	\$0.3825

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Three months ended September 30, (In thousands)	2013	2012
Net earnings	\$24,041	\$24,855
Other comprehensive income, net of income taxes		
Pension and other postretirement benefit plans activity	390	364
Other comprehensive income, net of income taxes	390	364
Comprehensive income	\$24,431	\$25,219

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, 2013	\$36,242	\$8,324	\$50,170	\$775,901	\$ (16,341 )	\$854,296
Net earnings	—	—	—	24,041	—	24,041
Pension and other postretirement benefit plans reclassifications, net of income taxes	—	—	—	—	390	390
Share-based incentive plan transactions	1,161	—	42,707	—	—	43,868
Purchases of Company stock	(1,024 )	—	(47,935 )	—	—	(48,959 )
Share-based compensation	—	—	4,244	—	—	4,244
Conversion of Class B to common stock	10	(10 )	—	—	—	—
Dividends paid						
Common stock	—	—	—	(14,925 )	—	(14,925 )
Class B stock	—	—	—	(3,389 )	—	(3,389 )
Tax benefit from incentive plans	—	—	(1,788 )	—	—	(1,788 )
Balance at September 30, 2013	\$36,389	\$8,314	\$47,398	\$781,628	\$ (15,951 )	\$857,778

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Three months ended September 30, (In thousands)	2013		2012	
Cash flows from operating activities				
Net earnings	\$24,041		\$24,855	
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities				
Depreciation	8,423		9,001	
Amortization	3,372		2,926	
Share-based compensation	4,244		4,557	
Deferred income taxes	8,746		11,379	
Amortization of broadcast rights	2,245		2,626	
Payments for broadcast rights	(2,930)	)	(3,212)	)
Excess tax benefits from share-based payments	(3,063)	)	(1,216)	)
Changes in assets and liabilities	(51,506)	)	(40,343)	)
Net cash provided by (used in) operating activities	(6,428)	)	10,573	)
Cash flows from investing activities				
Acquisitions of and investments in businesses	(750)	)	(3,291)	)
Additions to property, plant, and equipment	(3,786)	)	(5,678)	)
Net cash used in investing activities	(4,536)	)	(8,969)	)
Cash flows from financing activities				
Proceeds from issuance of long-term debt	91,000		35,000	
Repayments of long-term debt	(71,000)	)	(10,000)	)
Dividends paid	(18,314)	)	(17,086)	)
Purchases of Company stock	(48,959)	)	(18,305)	)
Proceeds from common stock issued	43,868		10,086	
Excess tax benefits from share-based payments	3,063		1,216	
Other	—		(763)	)
Net cash provided by (used in) financing activities	(342)	)	148	)
Net increase (decrease) in cash and cash equivalents	(11,306)	)	1,752	)
Cash and cash equivalents at beginning of period	27,674		25,820	
Cash and cash equivalents at end of period	\$16,368		\$27,572	

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 Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes 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, 2013, filed with the United States Securities and Exchange Commission.

The condensed consolidated financial statements as of September 30, 2013, and for the three months ended September 30, 2013 and 2012, 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, 2013, was derived from audited financial statements, but does 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.

Recently Adopted Accounting Standards—In February 2013, the Financial Accounting Standards Board (FASB) issued guidance related to Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. This update is effective for us in our first quarter of fiscal 2014. The adoption of this guidance required a change in the format of presentation only. The adoption of this guidance did not have an impact on our results of operations or financial position.

Recently Issued Accounting Standards—In July 2013, the FASB issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. The guidance is effective for us in our first quarter of fiscal 2015 with earlier adoption permitted. Retrospective application of the guidance is also permitted. While the adoption of this guidance will not have an impact on our results of operations or cash flows, we are currently evaluating the impact of presenting unrecognized tax benefits net of our deferred tax assets where applicable on our Condensed Consolidated Balance Sheets.



## 2. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, 49 percent are under the last-in first-out (LIFO) method at September 30, 2013, and 50 percent at June 30, 2013.

(In thousands)	September 30, 2013	June 30, 2013
Raw materials	\$13,500	\$14,336
Work in process	17,558	16,392
Finished goods	2,938	2,680
	33,996	33,408
Reserve for LIFO cost valuation	(5,022 )	(5,022 )
Inventories	\$28,974	\$28,386

## 3. Intangible Assets and Goodwill

Intangible assets consist of the following:

(In thousands)	September 30, 2013			June 30, 2013		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
National media						
Advertiser relationships	\$8,752	\$(4,460 )	\$4,292	\$8,752	\$(3,755 )	\$4,997
Customer lists	16,257	(11,991 )	4,266	16,387	(11,242 )	5,145
Other	17,105	(3,608 )	13,497	16,805	(3,041 )	13,764
Local media						
Network affiliation agreements	218,559	(118,755 )	99,804	218,559	(117,533 )	101,026
Total	\$260,673	\$(138,814 )	121,859	\$260,503	\$(135,571 )	124,932
Intangible assets not subject to amortization						
National media						
Internet domain names			1,827			1,827
Trademarks			158,146			158,446
Local media						
FCC licenses			299,076			299,076
Total			459,049			459,349
Intangible assets, net			\$580,908			\$584,281

Amortization expense was \$3.4 million for the three months ended September 30, 2013. Annual amortization expense for intangible assets is expected to be as follows: \$12.7 million in fiscal 2014, \$10.4 million in fiscal 2015, \$7.9 million in fiscal 2016, \$6.6 million in fiscal 2017, and \$6.1 million in fiscal 2018.

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

Three months ended September 30, (In thousands)	2013	2012
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