

MEREDITH CORP

Form 10-Q

January 24, 2012

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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, 2011

Commission file number 1-5128

MEREDITH CORPORATION

(Exact name of registrant as specified in its charter)

Iowa

42-0410230

(State or other jurisdiction of incorporation or
organization)

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

1716 Locust Street, Des Moines, Iowa

50309-3023

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

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

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Shares of stock outstanding at December 31, 2011

Common shares	36,049,026
Class B shares	8,740,308
Total common and Class B shares	44,789,334

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Meredith Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

Assets	December 31, 2011	June 30, 2011
(In thousands)		
Current assets		
Cash and cash equivalents	\$26,118	\$27,721
Accounts receivable, net	210,126	212,365
Inventories	21,107	21,529
Current portion of subscription acquisition costs	56,410	54,581
Current portion of broadcast rights	7,870	3,974
Other current assets	21,987	13,568
Total current assets	343,618	333,738
Property, plant, and equipment	458,583	459,257
Less accumulated depreciation	(260,660)	(272,819)
Net property, plant, and equipment	197,923	186,438
Subscription acquisition costs	65,947	54,286
Broadcast rights	1,655	1,292
Other assets	75,039	66,940
Intangible assets, net	554,866	545,101
Goodwill	566,894	525,034
Total assets	\$1,805,942	\$1,712,829
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$50,000	\$50,000
Current portion of long-term broadcast rights payable	10,942	8,548
Accounts payable	52,882	82,878
Accrued expenses and other liabilities	106,420	115,735
Current portion of unearned subscription revenues	166,841	151,831
Total current liabilities	387,085	408,992
Long-term debt	200,000	145,000
Long-term broadcast rights payable	5,937	5,431
Unearned subscription revenues	143,330	120,024
Deferred income taxes	176,853	160,709
Other noncurrent liabilities	99,674	97,688
Total liabilities	1,012,879	937,844
Shareholders' equity		
Series preferred stock	—	—
Common stock	36,049	36,282
Class B stock	8,740	8,776
Additional paid-in capital	51,666	58,274
Retained earnings	712,315	687,816
Accumulated other comprehensive loss	(15,707)	(16,163)

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Total shareholders' equity	793,063	774,985
Total liabilities and shareholders' equity	\$1,805,942	\$1,712,829

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, (In thousands except per share data)	Three Months		Six Months	
	2011	2010	2011	2010
Revenues				
Advertising	\$183,636	\$213,755	\$367,953	\$418,580
Circulation	63,902	63,737	130,491	129,677
All other	81,179	88,441	158,182	160,416
Total revenues	328,717	365,933	656,626	708,673
Operating expenses				
Production, distribution, and editorial	128,412	137,251	265,303	280,092
Selling, general, and administrative	134,940	148,506	277,905	290,438
Depreciation and amortization	10,505	9,663	20,337	19,448
Total operating expenses	273,857	295,420	563,545	589,978
Income from operations	54,860	70,513	93,081	118,695
Interest expense, net	(2,897)	(3,351)	(5,616)	(6,862)
Earnings from continuing operations before income taxes	51,963	67,162	87,465	111,833
Income taxes	(20,369)	(26,065)	(34,244)	(44,674)
Earnings from continuing operations	31,594	41,097	53,221	67,159
Loss from discontinued operations, net of taxes	—	(540)	—	(895)
Net earnings	\$31,594	\$40,557	\$53,221	\$66,264
Basic earnings per share				
Earnings from continuing operations	\$0.70	\$0.90	\$1.18	\$1.48
Discontinued operations	—	(0.01)	—	(0.02)
Basic earnings per share	\$0.70	\$0.89	\$1.18	\$1.46
Basic average shares outstanding	44,838	45,571	44,923	45,527
Diluted earnings per share				
Earnings from continuing operations	\$0.70	\$0.89	\$1.18	\$1.47
Discontinued operations	—	(0.01)	—	(0.02)
Diluted earnings per share	\$0.70	\$0.88	\$1.18	\$1.45
Diluted average shares outstanding	45,044	45,912	45,115	45,849
Dividends paid per share	\$0.3825	\$0.2300	\$0.6375	\$0.4600

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, 2011	\$36,282	\$8,776	\$58,274	\$687,816	\$ (16,163)	\$774,985
Net earnings	—	—	—	53,221	—	53,221
Other comprehensive income, net	—	—	—	—	456	456
Total comprehensive income						53,677
Share-based incentive plan transactions	319	—	2,013	—	—	2,332
Purchases of Company stock	(587)	(1)	(14,723)	—	—	(15,311)
Share-based compensation	—	—	7,632	—	—	7,632
Conversion of Class B to common stock	35	(35)	—	—	—	—
Dividends paid						
Common stock	—	—	—	(23,130)	—	(23,130)
Class B stock	—	—	—	(5,592)	—	(5,592)
Tax benefit from incentive plans	—	—	(1,530)	—	—	(1,530)
Balance at December 31, 2011	\$36,049	\$8,740	\$51,666	\$712,315	\$ (15,707)	\$793,063

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Six Months Ended December 31, (In thousands)	2011	2010
Cash flows from operating activities		
Net earnings	\$53,221	\$66,264
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	15,161	14,476
Amortization	5,176	4,976
Share-based compensation	7,632	5,891
Deferred income taxes	18,123	13,231
Amortization of broadcast rights	6,213	8,605
Payments for broadcast rights	(7,570)	(9,325)
Excess tax benefits from share-based payments	(83)	(317)
Changes in assets and liabilities	(29,126)	(19,277)
Net cash provided by operating activities	68,747	84,524
Cash flows from investing activities		
Acquisitions of businesses	(55,548)	(28,556)
Additions to property, plant, and equipment	(26,621)	(11,168)
Other	(1,563)	—
Net cash used in investing activities	(83,732)	(39,724)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	85,000	12,500
Repayments of long-term debt	(30,000)	(67,500)
Purchases of Company stock	(15,311)	(6,030)
Dividends paid	(28,722)	(21,017)
Proceeds from common stock issued	2,332	6,622
Excess tax benefits from share-based payments	83	317
Other	—	(51)
Net cash provided by (used in) financing activities	13,382	(75,159)
Net decrease in cash and cash equivalents	(1,603)	(30,359)
Cash and cash equivalents at beginning of period	27,721	48,574
Cash and cash equivalents at end of period	\$26,118	\$18,215

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, 2011, and for the three and six months ended December 31, 2011 and 2010, 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, 2011, 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, 2011, filed with the United States Securities and Exchange Commission.

Recently Adopted Accounting Standards—In December 2010, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement related to intangibles - goodwill and other, which requires a company to consider whether there are any adverse qualitative factors indicating that an impairment may exist in performing step 2 of the impairment test for reporting units with zero or negative carrying amounts. The Company adopted this pronouncement on July 1, 2011. The adoption of this pronouncement did not have a material impact on our condensed consolidated financial statements.

In December 2010, the FASB issued an accounting pronouncement related to business combinations, which requires that when comparative financial statements are presented, revenue and earnings of the combined entity should be disclosed as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The disclosure provisions are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. Effective July 1, 2011, the Company adopted this pronouncement but was not subject to the disclosure requirements in the first six months of fiscal 2012 due to the immateriality of the acquisitions made by the Company during the period.

Recently Issued Accounting Standards—In June 2011, the 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. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company will adopt this guidance for our fiscal year beginning July 1, 2012. As this guidance only amends the presentation of the

components of comprehensive income, its adoption will not have an impact on the Company's consolidated financial position or results of operations.

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In September 2011, the FASB amended existing guidance related to intangibles - goodwill and other by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) 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. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We intend to adopt this guidance for our fiscal year beginning July 1, 2012. We do not believe the adoption of this guidance will have a material impact on our financial statements.

2. Acquisitions

Effective July 1, 2011, Meredith acquired 100 percent of the outstanding stock of the EatingWell Media Group (EatingWell). The results of EatingWell operations have been included in the consolidated financial statements since that date. The EatingWell portfolio includes a bi-monthly magazine, a website, a content licensing and custom marketing program, a Healthy-in-a-Hurry mobile recipe application, and a series of high-quality food and nutrition-related books and cookbooks. The cash purchase price was \$28.0 million.

As a result of the acquisition, the assets and liabilities of EatingWell, consisting primarily of accounts receivable, identifiable intangible assets, accounts payable, deferred subscription revenue, 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 Company is in the process of obtaining a third-party valuation of intangible assets; thus the provisional measurements of intangible assets, goodwill, and deferred income tax balances are subject to change. Trade names and internet domain names, both indefinite-lived assets, have been provisionally assigned values of \$3.9 million and \$0.9 million, respectively. Definite-lived intangible assets include developed content of \$2.2 million, advertiser relationships of \$0.3 million, and subscriber relationships of \$0.1 million. The subscriber relationships have a 2 year useful life, the advertiser relationships have a 2.5 year useful life and the majority of the developed content has a 10 year useful life. Goodwill, with a provisionally assigned value of \$20.8 million, is attributable to expected synergies and the assembled workforce of Eating Well. As noted, the fair value of the acquired assets and liabilities is provisional pending receipt of the final valuation report.

EatingWell is subject to legal and regulatory requirements, including but not limited to those related to taxation, in each of the jurisdictions in which it operates. 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 acquisition of EatingWell 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.

On October 31, 2011, Meredith completed its acquisition of Every Day with Rachael Ray magazine and its related digital assets (collectively Rachael Ray). In addition, Meredith announced it has finalized a 10-year licensing agreement with Watch Entertainment Inc. for the award-winning brand. The results of Rachael Ray's operations have been included in the consolidated financial statements since that date. The cash purchase price was \$4.3 million.

As a result of the acquisition, the assets and certain of the liabilities of Rachael Ray, consisting primarily of accounts receivable, identifiable intangible assets, and deferred subscription revenue, 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 Company is in the process of obtaining a third-party valuation of intangible assets; thus the provisional measurements of intangible assets, goodwill, and deferred income tax balances are subject to change. Definite-lived intangible assets have a provisionally assigned value of \$7.5 million and a 5 year useful life. Goodwill, with a provisionally assigned value of \$21.1 million, is attributable to expected synergies and the assembled workforce of Rachael Ray. As noted, the fair value of the acquired assets and liabilities is provisional pending receipt of the final valuation report.

The impact of the EatingWell and Rachael Ray acquisitions is not material to the Company's results of operations; therefore, pro forma financial information has not been provided. Acquisition related costs were expensed by the Company in the period in which they were incurred. Acquisition related costs were not material to the Company's results of operations.

3. Discontinued Operations

The fiscal 2011 loss from discontinued operations represents the operating results, net of taxes, of ReadyMade magazine. The revenues and expenses of ReadyMade magazine, along with associated taxes, were removed from continuing operations and reclassified into a single line item amount on the Condensed Consolidated Statements of Earnings titled loss from discontinued operations, net of taxes, as follows:

Periods Ended December 31, 2010 (In thousands except per share data)	Three Months	Six Months
Revenues	\$927	\$2,609
Costs and expenses	(1,813)	(4,077)
Loss before income taxes	(886)	(1,468)
Income taxes	346	573
Loss from discontinued operations	\$(540)	\$(895)
Loss from discontinued operations per share:		
Basic	\$(0.01)	\$(0.02)
Diluted	(0.01)	(0.02)

4. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, 46 percent are under the last-in first-out (LIFO) method at December 31, 2011, and 46 percent at June 30, 2011.

(In thousands)	December 31, 2011	June 30, 2011
Raw materials	\$13,363	\$15,633
Work in process	12,578	11,723
Finished goods	2,531	1,609
	28,472	28,965
Reserve for LIFO cost valuation	(7,365)	(7,436)
Inventories	\$21,107	\$21,529

5. Intangible Assets and Goodwill

Intangible assets consist of the following:

(In thousands)	December 31, 2011			June 30, 2011		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
National media						
Noncompete agreements	\$240	\$(214)	) \$26	\$480	\$(424)	) \$56
Advertiser relationships	18,670	(17,140)	) 1,530	18,400	(15,772)	) 2,628
Customer lists	11,460	(6,718)	) 4,742	11,330	(5,889)	) 5,441
Other	11,450	(1,038)	) 10,412	4,450	(3,256)	) 1,194
Local media						
Network affiliation agreements	218,559	(110,196)	) 108,363	218,559	(107,750)	) 110,809
Total	\$260,379	\$(135,306)	) 125,073	\$253,219	\$(133,091)	) 120,128
Intangible assets not subject to amortization						
National media						
Internet domain names			2,076			1,166
Trademarks			128,641			124,731
Local media						
FCC licenses			299,076			299,076
Total			429,793			424,973
Intangible assets, net			\$554,866			\$545,101

Amortization expense was \$5.2 million for the six months ended December 31, 2011. Annual amortization expense for intangible assets is expected to be as follows: \$10.7 million in fiscal 2012, \$8.4 million in fiscal 2013, \$8.0 million in fiscal 2014, \$7.5 million in fiscal 2015, and \$6.4 million in fiscal 2016.

For certain acquisitions consummated prior to July 1, 2009, the sellers are entitled to contingent payments should the acquired operations achieve certain financial targets generally based on earnings before interest and taxes, as defined in the respective acquisition agreements. None of the contingent consideration is dependent on the continued employment of the sellers. As of December 31, 2011, the Company estimates that future aggregate contingent payments for such acquisitions will be \$2.4 million, which is the maximum amount of contingent payments the sellers may receive. The additional purchase consideration, if any, will be recorded as additional goodwill on our Condensed Consolidated Balance Sheet when the contingencies are resolved. For the six months ended December 31, 2010, the Company recognized \$7.9 million, which increased goodwill. No additional consideration was accrued in the six-month period ended December 31, 2011.

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

Six Months Ended December 31, (In thousands)	2011	2010
Balance at beginning of period	\$525,034	\$489,334
Acquisitions	41,860	23,024
Balance at end of period	\$566,894	\$512,358

6. Restructuring Accrual

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

Six Months Ended December 31, (In thousands)	2011	2010
Balance at beginning of period	\$8,042	\$5,538
Cash payments	(5,241	)(1,604
Balance at end of period	\$2,801	\$3,934

7. Long-term Debt

Long-term debt consists of the following:

(In thousands)	December 31, 2011	June 30, 2011
Variable-rate credit facilities		
Asset-backed bank facility of \$100 million, due 4/25/2013	\$75,000	\$70,000
Revolving credit facility of \$150 million, due 6/16/2013	50,000	—
Private placement notes		
5.04% senior notes, due 6/16/2012	50,000	50,000
6.70% senior notes, due 7/13/2013	50,000	50,000
7.19% senior notes, due 7/13/2014	25,000	25,000
Total long-term debt	250,000	195,000
Current portion of long-term debt	(50,000	)(50,000
Long-term debt	\$200,000	\$145,000

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, 2011, \$154.7 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, 2011, 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.

8. Fair Value Measurement

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

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

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

The carrying amount and estimated fair value of broadcast rights payable were \$16.9 million and \$16.4 million, respectively, as of December 31, 2011, and \$14.0 million and \$13.5 million, respectively, as of June 30, 2011. 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.

The carrying amount and estimated fair value of long-term debt were \$250.0 million and \$257.1 million, respectively, as of December 31, 2011, and \$195.0 million and \$205.1 million, respectively, as of June 30, 2011. 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.

9. Pension and Postretirement Benefit Plans

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

Periods Ended December 31, (In thousands)	Three Months		Six Months	
	2011	2010	2011	2010
Pension benefits				
Service cost	\$2,359	\$2,411	\$4,718	\$4,823
Interest cost	1,497	1,324	2,994	2,648
Expected return on plan assets	(2,504)	(2,172)	(5,008)	(4,344)
Prior service cost amortization	92	93	184	186
Actuarial loss amortization	401	1,166	802	2,333
Net periodic benefit costs	\$1,845	\$2,822	\$3,690	\$5,646
Postretirement benefits				
Service cost	\$113	\$119	\$226	\$238
Interest cost	240	198	480	396
Prior service cost amortization	(134)	(184)	(268)	(368)
Actuarial loss amortization	15	—	30	—
Net periodic benefit costs	\$234	\$133	\$468	\$266

10. Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources. The Company's comprehensive income includes net earnings and changes in prior service cost and net actuarial losses from pension and postretirement benefit plans. Total comprehensive income for the three months ended December 31, 2011 and 2010, was \$31.8 million and \$41.2 million, respectively. Total comprehensive income for the six months ended December 31, 2011 and 2010, was \$53.7 million and \$67.6 million, respectively.

11. Earnings per Share

The following table presents the calculations of earnings per share:

Periods Ended December 31, (In thousands except per share data)	Three Months		Six Months	
	2011	2010	2011	2010
Earnings from continuing operations	\$31,594	\$41,097	\$53,221	\$67,159
Basic average shares outstanding	44,838	45,571	44,923	45,527
Dilutive effect of stock options and equivalents	206	341	192	322
Diluted average shares outstanding	45,044	45,912	45,115	45,849
Earning per share from continuing operations				
Basic earnings per share	\$0.70	\$0.90	\$1.18	\$1.48
Diluted earnings per share	0.70	0.89	1.18	1.47

For the three months ended December 31, 2011 and 2010, antidilutive options excluded from the above calculations totaled 5,770,000 (with a weighted average exercise price of \$38.69) and 5,985,000 (with a weighted average exercise price of \$39.01), respectively. For the six months ended December 31, 2011 and 2010, antidilutive options excluded from the above calculations totaled 5,781,000 (with a weighted average exercise price of \$38.82) and 5,975,000 (with a weighted average exercise price of \$39.08), respectively.

In the six months ended December 31, 2011 and 2010, options were exercised to purchase 6,000 and 164,550 common shares, respectively.

12. Segment Information

Meredith is a diversified media company focused primarily on the home and family marketplace. On the basis of products and services, the Company has established two reportable segments: national media and local media. There have been no changes in the basis of segmentation since June 30, 2011. 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, (In thousands)	Three Months		Six Months	
	2011	2010	2011	2010
Revenues				
National media	\$244,315	\$268,483	\$502,927	\$535,198
Local media	84,402	97,450	153,699	173,475
Total revenues	\$328,717	\$365,933	\$656,626	\$708,673
Operating profit				
National media	\$35,797	\$42,200	\$71,801	\$81,830
Local media	27,156	38,549	38,213	55,277
Unallocated corporate	(8,093)	(10,236)	(16,933)	(18,412)
Income from operations	\$54,860	\$70,513	\$93,081	\$118,695
Depreciation and amortization				
National media	\$3,832	\$3,337	\$7,193	\$6,689
Local media	6,175	5,816	12,164	11,744
Unallocated corporate	498	510	980	1,015
Total depreciation and amortization	\$10,505	\$9,663	\$20,337	\$19,448

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

EXECUTIVE OVERVIEW

Meredith Corporation is the leading media and marketing company serving American women. Meredith combines well-known national brands - including Better Homes and Gardens, Parents, Ladies' Home Journal, Family Circle, American Baby, Fitness, and More - 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, health and wellness, and self-development. Meredith then uses multiple distribution platforms - including print, television, online, tablet, mobile, and video - to give consumers content they desire and to deliver the messages of its marketing partners. Additionally, Meredith uses its 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 group consists of magazine publishing, interactive media, integrated marketing, brand licensing, database-related activities, and other related operations. The local media group consists of 12 network-affiliated television stations, one radio station, related interactive media operations, and video-related operations. Both segments operate primarily in the U.S. and compete against similar media and other types of media on both a local and national basis. National media accounted for 77 percent of the Company's \$656.6 million in revenues in the first six months of fiscal 2012 while local media revenues represented 23 percent.

NATIONAL MEDIA

Advertising revenues made up 46 percent of national media first six months' revenues. These revenues were generated from the sale of advertising space in the Company's magazines and on websites to clients interested in promoting their brands, products, and services to consumers. Circulation revenues accounted for 26 percent of national media first six months' revenues. Circulation revenues result from the sale of magazines to consumers through subscriptions and by single copy sales on newsstands, primarily at major retailers and grocery/drug stores. The remaining 28 percent of national media's revenues came from a variety of activities that included the sale of integrated marketing products and services and books as well as brand licensing and other related activities. National media's major expense categories are production and delivery of publications and promotional mailings and employee compensation costs.

LOCAL MEDIA

Local media derives the vast majority of its revenues—89 percent in the first six months of fiscal 2012—from the sale of advertising, both on the air and on our stations' websites. The remainder comes from television retransmission fees, television production services and products, and other services. Political advertising revenues are cyclical in that they are significantly greater during biennial election campaigns (which take place primarily in odd-numbered fiscal years) than at other times. Local media's major expense categories are employee compensation and programming costs.

FIRST SIX MONTHS FISCAL 2012 FINANCIAL OVERVIEW

National media revenues decreased 6 percent reflecting primarily declines in advertising and integrated marketing revenues. National media operating profit decreased 12 percent due primarily to declines in operating profits in our integrated marketing and interactive media operations.

Local media revenues and operating profit decreased 11 percent and 31 percent, respectively. Meredith recorded \$31.9 million less in political advertising revenues in the first six months of fiscal 2012 due to the normal cyclical nature of political advertising. Partially offsetting this decline was a 6 percent increase in non-political advertising.

In July 2011, Meredith acquired the EatingWell Media Group (EatingWell), a multichannel brand focused on healthy eating, and in October 2011, Meredith acquired Every Day with Rachael Ray magazine and its related digital assets (collectively Rachael Ray).

In October 2011, Meredith invested in iris Nation Worldwide Limited (iris), a leading global marketing company.

Diluted earnings per share from continuing operations decreased 20 percent to \$1.18 from \$1.47 in the prior-year first six months.

DISCONTINUED OPERATIONS

In fiscal 2011, the Company discontinued the operations of ReadyMade magazine. The revenues and expenses, along with associated taxes, were reclassified from continuing operations into a single line item amount on the Condensed Consolidated Statements of Earnings titled loss from discontinued operations, net of taxes. Unless stated otherwise, as in the section titled Discontinued Operations, all of the information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations relates to continuing operations.

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. 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 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 Management's Discussion and Analysis of Financial Condition and Results of Operations (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, (In thousands except per share data)	2011	2010	Change
Total revenues	\$328,717	\$365,933	(10)%
Operating expenses	273,857	295,420	(7)%
Income from operations	\$54,860	\$70,513	(22)%
Earnings from continuing operations	\$31,594	\$41,097	(23)%
Net earnings	31,594	40,557	(22)%
Diluted earnings per share from continuing operations	0.70	0.89	(21)%
Diluted earnings per share	0.70	0.88	(20)%
Six Months Ended December 31, (In thousands except per share data)	2011	2010	Change
Total revenues	\$656,626	\$708,673	(7)%
Operating expenses	563,545	589,978	(4)%
Income from operations	\$93,081	\$118,695	(22)%
Earnings from continuing operations	\$53,221	\$67,159	(21)%
Net earnings	53,221	66,264	(20)%
Diluted earnings per share from continuing operations	1.18	1.47	(20)%
Diluted earnings per share	1.18	1.45	(19)%

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, 2011, compared with the prior-year periods. This commentary should be read in conjunction with the interim condensed consolidated financial statements presented elsewhere in this report and with our Annual Report on Form 10-K for the year ended June 30, 2011.

NATIONAL MEDIA

National media operating results were as follows:

Three Months Ended December 31, (In thousands)	2011	2010	Change
Advertising revenue	\$107,180	\$122,352	(12)%
Circulation revenue	63,902	63,737	0 %
Other revenue	73,233	82,394	(11)%
Total revenues	244,315	268,483	(9)%
Operating expenses	(208,518)	(226,283)	(8)%
Operating profit	\$35,797	\$42,200	(15)%
Operating profit margin	14.7 %	15.7 %	

Six Months Ended December 31, (In thousands)	2011	2010	Change
Advertising revenue	\$231,637	\$257,854	(10)%
Circulation revenue	130,491	129,677	1 %
Other revenue	140,799	147,667	(5)%
Total revenues	502,927	535,198	(6)%
Operating expenses	(431,126)	(453,368)	(5)%
Operating profit	\$71,801	\$81,830	(12)%
Operating profit margin	14.3 %	15.3 %	

Revenues

Magazine advertising revenues decreased 13 percent in the second quarter and 10 percent for the first six months of fiscal 2012 as total advertising pages decreased in the high-single digits on a percentage basis in both the second quarter and in the first six months of fiscal 2012. Among our core advertising categories, home, and non-prescription drugs showed strength while demand was weaker for the food and beverage and prescription drug categories. Online advertising revenues in our interactive media operations declined 8 percent in the second quarter and 10 percent in the first six months of fiscal 2012 due to continued slowdown in demand.

Magazine circulation revenues were flat in the second quarter and increased 1 percent in the first six months of fiscal 2012. Subscription revenues increased while newsstand revenues declined. Subscription revenues increased primarily due to the acquisitions of Eating Well and Everyday with Rachael Ray. The decrease in newsstand revenues was primarily due to softness in the special interest media publications.

Other revenues decreased 11 percent in the second quarter and 5 percent in the first six months of fiscal 2012. Meredith Xcelerated Marketing (MXM) revenues were down in the low teens in the second quarter. They were down in the mid-single digits for the first six months of fiscal 2012. The decline in MXM revenues is primarily due to certain clients within MXM scaling back programs.

Operating Expenses

National media operating expenses decreased 8 percent in the second quarter and 5 percent in the six month period. Performance-based incentive accruals, processing, postage, and paper declined in the periods primarily due to the decrease in advertising pages. The volume declines in paper were partially offset by mid-to-high-single digit increases in average paper prices. Circulation expenses also decreased in the periods.

Operating Profit

National media operating profit declined 15 percent in the second quarter and 12 percent in the six-month period compared with the respective prior-year periods reflecting primarily decreases in operating profit in our integrated marketing and interactive media operations partially offset by an increase in operating profit in our magazine operations.

LOCAL MEDIA

Local media operating results were as follows:

Three Months Ended December 31, (In thousands)	2011	2010	Change	
Non-political advertising revenues	\$75,382	\$69,376	9	%
Political advertising revenues	1,074	22,027	(95))%
Other revenues	7,946	6,047	31	%
Total revenues	84,402	97,450	(13))%
Operating expenses	(57,246)	(58,901)	(3))%
Operating profit	\$27,156	\$38,549	(30))%
Operating profit margin	32.2 %	39.6 %		
Six Months Ended December 31, (In thousands)	2011	2010	Change	
Non-political advertising revenues	\$134,659	\$127,124	6	%
Political advertising revenues	1,657	33,602	(95))%
Other revenues	17,383	12,749	36	%
Total revenues	153,699	173,475	(11))%
Operating expenses	(115,486)	(118,198)	(2))%
Operating profit	\$38,213	\$55,277	(31))%
Operating profit margin	24.9 %	31.9 %		

Revenues

Local media revenues declined 13 percent in the second quarter and 11 percent in the first six months of fiscal 2012 compared with the respective prior-year periods. Non-political advertising revenues grew 9 percent in the second quarter and 6 percent for the first six months of fiscal 2012. Local non-political advertising revenues increased 7 percent in the second quarter and 4 percent for the first six months of fiscal 2012. National non-political advertising increased 9 percent as compared to the prior-year quarter and 6 percent compared to the prior-year first six months. Net political advertising revenues totaled \$1.1 million in the second quarter and \$1.7 million in the first six months of the current fiscal year compared with \$22.0 million in the prior-year second quarter and \$33.6 million in the prior-year six-month 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. Online advertising, a small but growing percentage of non-political advertising revenues, increased more than 50 percent in the second quarter and more than 40 percent in the six-month period as compared to the prior-year.

Other revenue increased 31 percent in the current quarter and 36 percent in the first six months of fiscal 2012 reflecting primarily Meredith's management of Peachtree TV (WPCH-TV) in Atlanta, which began in late March 2011.

Operating Expenses

Local media operating expenses decreased 3 percent in the second quarter of fiscal 2012 and 2 percent in the six-month period primarily due to lower production and film amortization. These decreases were partially offset by higher legal services expenses.

Operating Profit

Local media operating profit declined 30 percent in the second quarter and 31 percent in the first six months compared with the prior-year periods. The declines primarily reflected lower revenues due to the cyclical nature of political

advertising partially offset by growth in non-political revenues.

Supplemental Disclosure of Local Media EBITDA

Meredith's local media EBITDA is defined as local media segment operating profit plus depreciation and amortization expense. EBITDA is not a 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, (In thousands)	2011		2010	
Revenues	\$84,402		\$97,450	
Operating profit	\$27,156		\$38,549	
Depreciation and amortization	6,175		5,816	
EBITDA	\$33,331		\$44,365	
EBITDA margin	39.5	%	45.5	%
Six Months Ended December 31, (In thousands)	2011		2010	
Revenues	\$153,699		\$173,475	
Operating profit	\$38,213		\$55,277	
Depreciation and amortization	12,164		11,744	
EBITDA	\$50,377		\$67,021	
EBITDA margin	32.8	%	38.6	%

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 (In thousands)	2011	2010	Change
Three Months Ended December 31,	\$8,093	\$10,236	(21)%
Six Months Ended December 31,	\$16,933	\$18,412	(8)%

Unallocated corporate expenses decreased 21 percent in the second quarter and 8 percent in the first six months of fiscal 2012. For the second quarter and six-month period, charitable contributions, performance-based incentive accruals, pension expense, consulting fees, medical costs, and investment spending in tablet platforms declined. While building rent decreased in the second quarter, it increased in the first six months of fiscal 2012 due to the acceleration in the first quarter of fiscal 2012 of lease expense on vacated leased properties related to a move to new space in New York.

CONSOLIDATED

Consolidated Operating Expenses

Consolidated operating expenses were as follows:

Three Months Ended December 31, (In thousands)	2011	2010	Change
Production, distribution, and editorial	\$ 128,412	\$ 137,251	(6)%
Selling, general, and administrative	134,940	148,506	(9)%
Depreciation and amortization	10,505	9,663	9 %
Operating expenses	\$ 273,857	\$ 295,420	(7)%
Six Months Ended December 31, (In thousands)	2011	2010	Change
Production, distribution, and editorial	\$ 265,303	\$ 280,092	(5)%
Selling, general, and administrative	277,905	290,438	(4)%
Depreciation and amortization	20,337	19,448	5 %
Operating expenses	\$ 563,545	\$ 589,978	(4)%

Production, distribution, and editorial costs decreased 6 percent as compared to the prior-year quarter and 5 percent as compared to the prior-year first six months. Declines in national media processing, postage, and paper and local media production and film amortization contributed to the reduction in both periods.

Selling, general, and administrative expenses decreased 9 percent in the second quarter and 4 percent in the first six months of fiscal 2012. For both the second quarter and six-month period, performance-based incentive accruals, circulation expenses, charitable contributions and pension costs declined. While building rent decreased in the second quarter, it increased in the first six months of fiscal 2012 due to the acceleration in the first quarter of fiscal 2012 of lease expense on vacated leased properties related to a move to new space.

Depreciation and amortization expense increased 9 percent in the second quarter and 5 percent in the six-month period as compared to the prior-year periods primarily due to depreciation on the leasehold improvements and fixed assets in new leased property in New York.

Income from Operations

Income from operations decreased 22 percent in the second quarter and in the first six months of fiscal 2012, primarily as a result of lower political revenues due to the cyclical nature of political advertising, and weaker operating profits in our integrated marketing and interactive media operations partially offset by reduced operating expenses.

Net Interest Expense

Net interest expense declined to \$2.9 million in the fiscal 2012 second quarter compared with \$3.4 million in the comparable prior-year quarter. For the six months ended December 31, 2011, net interest expense was \$5.6 million versus \$6.9 million in the comparable prior-year period. Average long-term debt outstanding was \$258 million in the second quarter of fiscal 2012 and \$240 million for the six-month period compared with \$270 million in the prior year second quarter and \$279 million in the prior year six-month period. The Company's approximate weighted average interest rate was 4.7 percent in the first six months of fiscal 2012 and 4.9 percent in the first six months of fiscal 2011.

Income Taxes

Our effective tax rate was 39.2 percent in the second quarter of fiscal 2012 and 39.2 percent in the first half of fiscal 2012 as compared to 38.8 percent in the second quarter of fiscal 2011 and 39.9 percent in the first half of fiscal

2011.

Earnings from Continuing Operations and Earnings per Share from Continuing Operations

Earnings from continuing operations were \$31.6 million (\$0.70 per diluted share), a decrease of 23 percent from fiscal 2011 second quarter earnings from continuing operations of \$41.1 million (\$0.89 per diluted share). For the six months ended December 31, 2011, earnings from continuing operation were \$53.2 million (\$1.18 per diluted share), a decrease of 21 percent from prior-year six month earnings of \$67.2 million (\$1.47 per diluted share). The declines primarily reflected lower political revenues due to the cyclical nature of political advertising and weaker operating profits in our integrated marketing and interactive media operations partially offset by reduced operating expenses.

Discontinued Operations

The fiscal 2011 loss from discontinued operations represents the operating results, net of taxes, of ReadyMade magazine. The revenues and expenses of ReadyMade magazine, along with associated taxes, were removed from continuing operations and reclassified into a single line item amount on the Condensed Consolidated Statements of Earnings titled loss from discontinued operations, net of taxes, as follows:

Periods Ended December 31, 2010 (In thousands except per share data)	Three Months	Six Months
Revenues	\$927	\$2,609
Costs and expenses	(1,813)	(4,077)
Loss before income taxes	(886)	(1,468)
Income taxes	346	573
Loss from discontinued operations		