

MEREDITH CORP  
Form 10-Q  
January 22, 2008  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **December 31, 2007**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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, 2007	
Common shares	37,911,100
Class B shares	9,228,578
Total common and Class B shares	47,139,678

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements  
Meredith Corporation and Subsidiaries  
Condensed Consolidated Balance Sheets

	(Unaudited) December 31, 2007	June 30, 2007
Assets		
(In thousands)		
Current assets		
Cash and cash equivalents	\$ 29,722	\$ 39,220
Accounts receivable, net	251,019	267,419
Inventories	56,939	48,836
Current portion of subscription acquisition costs	66,731	70,553
Current portion of broadcast rights	19,307	11,307
Other current assets	29,667	15,305
Total current assets	453,385	452,640

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Property, plant, and equipment	443,221	445,846
Less accumulated depreciation	(245,835 )	(239,820 )
Net property, plant, and equipment	197,386	206,026
Subscription acquisition costs	61,633	66,309
Broadcast rights	7,985	9,309
Other assets	96,738	101,178
Intangible assets, net	788,107	794,996
Goodwill	500,646	459,493
Total assets	\$ 2,105,880	\$ 2,089,951

Liabilities and Shareholders' Equity

Current liabilities

Current portion of long-term debt	\$ 125,000	\$ 100,000
Current portion of long-term broadcast rights payable	20,044	12,069
Accounts payable	109,176	78,156
Accrued expenses and other liabilities	122,529	105,359
Current portion of unearned subscription revenues	187,778	191,445
Total current liabilities	564,527	487,029

Long-term debt	295,000	375,000
Long-term broadcast rights payable	17,213	18,584
Unearned subscription revenues	167,324	167,873
Deferred income taxes	142,039	166,597
Other noncurrent liabilities	97,962	41,667
Total liabilities	1,284,065	1,256,750

Shareholders' equity

Series preferred stock	-	-
Common stock	37,911	38,970
Class B stock	9,229	9,262
Additional paid-in capital	63,545	58,945
Retained earnings	719,414	727,628
Accumulated other comprehensive income	567	2,499
Unearned compensation	(8,851 )	(4,103 )
Total shareholders' equity	821,815	833,201

Total liabilities and shareholders' equity	\$ 2,105,880	\$ 2,089,951
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See accompanying Notes to Condensed Consolidated Financial Statements.

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

Period Ended December 31, (In thousands except per share data)	Three Months		Six Months	
	2007	2006	2007	2006
Revenues				
Advertising	\$ 239,256	\$ 245,537	\$ 493,591	\$ 484,106
Circulation	72,959	78,837	153,245	162,598
All other	84,030	74,972	153,482	138,993
Total revenues	396,245	399,346	800,318	785,697
Operating expenses				
Production, distribution, and editorial	166,122	161,353	341,830	328,918
Selling, general, and administrative	153,046	160,939	308,616	311,879
Depreciation and amortization	12,025	11,034	24,143	22,064
Total operating expenses	331,193	333,326	674,589	662,861
Income from operations	65,052	66,020		
			125,729	122,836
Interest income	296	437	648	670
Interest expense	(5,734 )	(7,452 )	(11,897 )	(14,772 )
Earnings from continuing operations before income taxes	59,614	59,005	114,480	108,734
Income taxes	24,401	23,188	45,799	42,731
Earnings from continuing operations				
	35,213	35,817	68,681	66,003
Income (loss) from discontinued operations, net of taxes	846	(790 )	748	(480 )
Net earnings	\$ 36,059	\$ 35,027	\$ 69,429	\$ 65,523

Basic earnings per share								
Earnings from continuing operations	\$	0.74	\$	0.75	\$	1.44	\$	1.38
Discontinued operations		0.02		(0.02 )		0.02		(0.01 )
Basic earnings per share								
	\$	0.76	\$	0.73	\$	1.46	\$	1.37
Basic average shares outstanding		47,287		47,905		47,541		47,951
Diluted earnings per share								
Earnings from continuing operations	\$	0.73	\$	0.73	\$	1.41	\$	1.35
Discontinued operations		0.02		(0.01 )		0.02		(0.01 )
Diluted earnings per share								
	\$	0.75	\$	0.72	\$	1.43	\$	1.34
Diluted average shares outstanding		48,325		48,961		48,576		48,929
Dividends paid per share								
	\$	0.185	\$	0.160	\$	0.370	\$	0.320

See accompanying Notes to Condensed Consolidated Financial Statements.

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Meredith Corporation and Subsidiaries  
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(In thousands except per share data)	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation	Total
Balance at June 30, 2007							
							\$ 38,970
							\$ 9,262
							\$ 58,945

	\$ 727,628
	\$ 2,499
	\$ (4,103)
	\$ 833,201
Net earnings Net earnings	
	-
	-
	-
	69,429
	-
	-
	69,429
Other comprehensive loss, net	
	-
	-
	-
	-
	(1,932)
	-
	(1,932)
Total comprehensive income	
	67,497
Stock issued under various incentive	

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plans, net of forfeitures

300

-

12,729

-

-

(3,587)

9,442

Issuance of common stock equivalents

-

-

3,667

-

-

(3,667)

-

Purchases of Company stock

(1,392)

-

(16,054)

(60,036)

-

-

(77,482)

Share-based compensation

-



	-
	3,898
	-
	-
	2,506
	6,404
Conversion of Class B to common stock	
	33
	(33)
	-
	-
	-
	-
	-
Dividends paid, 37 cents per share	
Common stock	
	-
	-
	-
	(14,186)
	-
	-
	(14,186)

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Class B stock

-  
-  
-  
(3,421)  
-  
-  
(3,421)

Tax benefit from incentive plans

-  
-  
360  
-  
-  
-  
360

Balance at December 31, 2007

\$ 37,911  
\$ 9,229  
\$ 63,545  
\$ 719,414  
\$ 567  
\$ (8,851)  
\$ 821,815

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Six Months Ended December 31, (In thousands)	2007	2006
Cash flows from operating activities		
Net earnings	\$ 69,429	\$ 65,523
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	17,251	15,643
Amortization	7,159	6,815
Share-based compensation	6,404	5,749
Deferred income taxes	14,589	14,301
Amortization of broadcast rights	13,642	14,531
Payments for broadcast rights	(13,715 )	(14,607 )
Excess tax benefits from share-based payments	(360 )	(1,217 )
Changes in assets and liabilities	28,520	(13,439 )
Net cash provided by operating activities	142,919	93,299
Cash flows from investing activities		
Acquisitions of businesses	(1,920 )	(2,146 )
Additions to property, plant, and equipment	(10,210 )	(19,269 )
Net cash used in investing activities	(12,130 )	(21,415 )
Cash flows from financing activities		
Proceeds from issuance of long-term debt	90,000	95,000
Repayments of long-term debt	(145,000 )	(150,000 )
Purchases of Company stock	(77,482 )	(32,156 )
Proceeds from common stock issued	9,442	17,277
Dividends paid	(17,607 )	(15,367 )
Excess tax benefits from share-based payments	360	1,217
Net cash used in financing activities	(140,287 )	(84,029 )
Net decrease in cash and cash equivalents	(9,498 )	(12,145 )
Cash and cash equivalents at beginning of period	39,220	30,713
Cash and cash equivalents at end of period	\$ 29,722	\$ 18,568

See accompanying Notes to Condensed Consolidated Financial Statements.

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Meredith Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. 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, 2007, and for the three and six months ended December 31, 2007 and 2006, are unaudited but, in management's opinion, include all normal, recurring adjustments necessary for a fair presentation of the results of interim periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

These consolidated financial statements, including the related notes, are condensed and presented in accordance with accounting principles generally accepted in the United States of America (GAAP). These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in Meredith's Annual Report on Form 10-K for the year ended June 30, 2007, filed with the United States Securities and Exchange Commission (SEC).

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a comprehensive model of how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company adopted FIN 48 on July 1, 2007. As a result, the Company was required to make certain reclassifications in its consolidated balance sheet as of July 1, 2007. In the aggregate, these reclassifications increased the Company's liability for unrecognized tax benefits by \$36.0 million and decreased its net deferred tax liabilities by \$36.0 million. The adoption of FIN 48 had no impact on the Company's consolidated retained earnings as of July 1, 2007, or on its consolidated results of operations or cash flows for the six months ended December 31, 2007.

The amount of unrecognized tax benefits totaled \$47.9 million at July 1, 2007. In addition, in accordance with the Company's policy to record interest and penalties related to unrecognized tax benefits in the provision for income taxes, the Company had accrued \$6.3 million for such items at July 1, 2007. Recognition of all unrecognized tax benefits at July 1, 2007, would reduce income tax expense by \$11.9 million and result in a corresponding reduction in our effective tax rate. The Company does not, however, expect significant changes in the amount of unrecognized tax benefits during the next twelve months. The tax years that remain subject to examination by United States (U.S.) federal and state jurisdictions as of July 1, 2007, are fiscal years 2004 and after.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development, and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS 141R beginning on July 1, 2009. This standard will change our accounting treatment for business combinations on a prospective basis.

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The Emerging Issues Task Force (EITF) reached consensus on EITF Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF 06-04) and EITF Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10), which require that a company recognize a liability for the postretirement benefits associated with endorsement and collateral assignment split-dollar life insurance arrangements. The provisions of EITF 06-04 and EITF 06-10 will be effective for Meredith as of July 1, 2008, and will impact the Company in instances where the Company has contractually agreed to maintain a life insurance policy (i.e., the Company pays the premiums) for an employee in periods in which the employee is no longer providing services. Meredith is currently evaluating the impact, if any, that the provisions of EITF 06-04 and EITF 06-10 will have on its consolidated financial statements.

## 2. Discontinued Operations

In fiscal 2007, Meredith discontinued the print operations of *Child* magazine. In May 2007, Meredith sold KFXO, the low-power FOX affiliate serving the Bend, Oregon market. In fiscal 2007, the Company announced its intent to sell WFLI, the CW affiliate serving the Chattanooga, Tennessee market. Management currently expects the sale of WFLI to close in early calendar 2008. The carrying amounts of the station's assets and liabilities are not material at December 31, 2007, and thus have not been classified as held for sale in the Condensed Consolidated Balance Sheet as of December 31, 2007.

For fiscal 2007, the loss from discontinued operations represents the combined operating results of *Child* magazine and the two television stations, KFXO and WFLI. For fiscal 2008, income from discontinued operations represents the operating loss of WFLI and the reversal of a portion of the restructuring charge recorded in fiscal 2007 related to the discontinuation of the print operations of *Child* magazine. The reversal of a portion of the *Child* restructuring charge is a result of changes in the estimated net costs for vacated leased space and employee severance and is reflected in the special items line in the following table of discontinued operations.

Revenues and expenses related to discontinued operations were as follows:

Period Ended December 31, (In thousands except per share data)	Three Months		Six Months	
	2007	2006	2007	2006
Revenues	\$ 443	\$ 6,730	\$ 864	\$ 16,121

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Operating expenses	(645)	(8,031)	(1,227)	(16,911)
Special items	1,588	-	1,588	-
Income (loss) before income taxes	1,386	(1,301)	1,225	(790)
Income taxes	(540)	511	(477) &	