MEREDITH CORP
Form 10-Q
October 23, 2014
Click here for Table of Contents

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, 2014 Commission file number 1-5128

MEREDITH CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Iowa | 42-0410230 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1716 Locust Street, Des Moines, Iowa | 50309-3023 |
| (Address of principal executive offices) | (Zip Code) |

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

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

Yes x No o

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

Yes x No o

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

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

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

Yes o No x

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

| | |
|---|---|
| Shares of stock outstanding at September 30, 2014 | |
| Common shares | 37,157,112 |
| Class B shares | 7,293,420 |
| Total common and Class B shares | 44,450,532 |

TABLE OF CONTENTS


| | | Page |
|---|---|---|
| | Part I - Financial Information | |
| Item 1. | Financial Statements | |
| | Condensed Consolidated Balance Sheets as of September 30, 2014 and June 30, 2014 | 1 |
| | Condensed Consolidated Statements of Earnings for the Three Months Ended September 30, 2014 and 2013 | 2 |
| | Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2014 and 2013 | 3 |
| | Condensed Consolidated Statement of Shareholders' Equity for the Three Months Ended September 30, 2014 | 4 |
| | Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2014 and 2013 | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 23 |
| Item 4. | Controls and Procedures | 23 |
| | Part II - Other Information | |
| Item 1A. | Risk Factors | 24 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 25 |
| Item 6. | Exhibits | 26 |
| | Signature | 27 |
| | Index to Attached Exhibits | E-1 |


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, 2014 | June 30, 2014 |
|---|---|---|
| (In thousands) | | |
| Current assets | | |
| Cash and cash equivalents | $30,337 | $36,587 |
| Accounts receivable, net | 263,624 | 257,644 |
| Inventories | 22,220 | 24,008 |
| Current portion of subscription acquisition costs | 92,789 | 96,893 |
| Current portion of broadcast rights | 14,333 | 4,551 |
| Assets held for sale | 32,900 | 32,900 |
| Other current assets | 19,821 | 17,429 |
| Total current assets | 476,024 | 470,012 |
| Property, plant, and equipment | 502,287 | 501,216 |
| Less accumulated depreciation | (304,548) | (296,168) |
| Net property, plant, and equipment | 197,739 | 205,048 |
| Subscription acquisition costs | 104,739 | 101,533 |
| Broadcast rights | 3,052 | 3,114 |
| Other assets | 87,408 | 86,935 |
| Intangible assets, net | 832,868 | 835,531 |
| Goodwill | 840,760 | 841,627 |
| Total assets | $2,542,590 | $2,543,800 |
| | | |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Current portion of long-term debt | $62,500 | $87,500 |
| Current portion of long-term broadcast rights payable | 14,315 | 4,511 |
| Accounts payable | 77,285 | 81,402 |
| Accrued expenses and other liabilities | 116,701 | 136,047 |
| Current portion of unearned subscription revenues | 165,448 | 173,643 |
| Total current liabilities | 436,249 | 483,103 |
| Long-term debt | 659,375 | 627,500 |
| Long-term broadcast rights payable | 4,440 | 4,327 |
| Unearned subscription revenues | 151,684 | 151,533 |
| Deferred income taxes | 284,159 | 277,477 |
| Other noncurrent liabilities | 105,484 | 108,208 |
| Total liabilities | 1,641,391 | 1,652,148 |
| Shareholders' equity | | |
| Series preferred stock | — | — |
| Common stock | 37,157 | 36,776 |
| Class B stock | 7,294 | 7,700 |
| Additional paid-in capital | 40,665 | 41,884 |
| Retained earnings | 824,022 | 814,050 |
| Accumulated other comprehensive loss | (7,939) | (8,758) |

| | | |
|---|---|---|
| Total shareholders' equity | 901,199 | 891,652 |
| Total liabilities and shareholders' equity | $2,542,590 | $2,543,800 |

See accompanying Notes to Condensed Consolidated Financial Statements.

1

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

| Three months ended September 30, | 2014 | 2013 |
|---|---|---|
| (In thousands except per share data) | | |
| Revenues | | |
| Advertising | $218,031 | $198,547 |
| Circulation | 65,885 | 75,734 |
| All other | 87,268 | 82,171 |
| Total revenues | 371,184 | 356,452 |
| Operating expenses | | |
| Production, distribution, and editorial | 141,887 | 140,777 |
| Selling, general, and administrative | 163,676 | 161,072 |
| Depreciation and amortization | 12,769 | 11,795 |
| Total operating expenses | 318,332 | 313,644 |
| Income from operations | 52,852 | 42,808 |
| Interest expense, net | (4,242) | (2,713) |
| Earnings before income taxes | 48,610 | 40,095 |
| Income taxes | (19,245) | (16,054) |
| Net earnings | $29,365 | $24,041 |
| | | |
| Basic earnings per share | $0.66 | $0.54 |
| Basic average shares outstanding | 44,459 | 44,648 |
| | | |
| Diluted earnings per share | $0.65 | $0.53 |
| Diluted average shares outstanding | 45,157 | 45,432 |
| | | |
| Dividends paid per share | $0.4325 | $0.4075 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Three months ended September 30, | 2014 | 2013 |
|---|---|---|
| (In thousands) | | |
| Net earnings | $29,365 | $24,041 |
| Other comprehensive income, net of income taxes | | |
| Pension and other postretirement benefit plans activity | 42 | 390 |
| Unrealized gain on interest rate swaps | 777 | — |
| Other comprehensive income, net of income taxes | 819 | 390 |
| Comprehensive income | $30,184 | $24,431 |

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, 2014 | $36,776 | $7,700 | $41,884 | $814,050 | $ (8,758 ) | $891,652 |
| Net earnings | — | — | — | 29,365 | — | 29,365 |
| Other comprehensive income, net of income taxes | — | — | — | — | 819 | 819 |
| Share-based incentive plan transactions | 340 | — | 9,748 | — | — | 10,088 |
| Purchases of Company stock | (365 ) | — | (16,647 ) | — | — | (17,012 ) |
| Share-based compensation | — | — | 4,646 | — | — | 4,646 |
| Conversion of Class B to common stock | 406 | (406 ) | — | — | — | — |
| Dividends paid | | | | | | |
| Common stock | — | — | — | (16,236 ) | — | (16,236 ) |
| Class B stock | — | — | — | (3,157 ) | — | (3,157 ) |
| Tax benefit from share-based awards | — | — | 1,034 | — | — | 1,034 |
| Balance at September 30, 2014 | $37,157 | $7,294 | $40,665 | $824,022 | $ (7,939 ) | $901,199 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Three months ended September 30, | 2014 | 2013 |
|---|---|---|
| (In thousands) | | |
| Cash flows from operating activities | | |
| Net earnings | $29,365 | $24,041 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities | | |
| Depreciation | 9,239 | 8,423 |
| Amortization | 3,530 | 3,372 |
| Share-based compensation | 4,646 | 4,244 |
| Deferred income taxes | 7,326 | 8,746 |
| Amortization of broadcast rights | 4,106 | 2,245 |
| Payments for broadcast rights | (3,906) | (2,930) |
| Excess tax benefits from share-based payments | (3,982) | (3,063) |
| Changes in assets and liabilities | (39,178) | (51,506) |
| Net cash provided by (used in) operating activities | 11,146 | (6,428) |
| Cash flows from investing activities | | |
| Acquisitions of and investments in businesses | — | (750) |
| Additions to property, plant, and equipment | (1,936) | (3,786) |
| Net cash used in investing activities | (1,936) | (4,536) |
| Cash flows from financing activities | | |
| Proceeds from issuance of long-term debt | 45,000 | 91,000 |
| Repayments of long-term debt | (38,125) | (71,000) |
| Dividends paid | (19,393) | (18,314) |
| Purchases of Company stock | (17,012) | (48,959) |
| Proceeds from common stock issued | 10,088 | 43,868 |
| Excess tax benefits from share-based payments | 3,982 | 3,063 |
| Net cash used in financing activities | (15,460) | (342) |
| Net decrease in cash and cash equivalents | (6,250) | (11,306) |
| Cash and cash equivalents at beginning of period | 36,587 | 27,674 |
| Cash and cash equivalents at end of period | $30,337 | $16,368 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation—The condensed consolidated financial statements include the accounts of Meredith Corporation and its wholly owned subsidiaries (Meredith or the Company), after eliminating all significant intercompany balances and transactions. Meredith does not have any off-balance sheet arrangements. The Company's use of special-purpose entities is limited to Meredith Funding Corporation, whose activities are fully consolidated in Meredith's condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in Meredith's Annual Report on Form 10 K for the year ended June 30, 2014, filed with the SEC.

The condensed consolidated financial statements as of September 30, 2014, and for the three months ended September 30, 2014 and 2013, 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, 2014, were derived from audited financial statements, but do not include all disclosures required by GAAP. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year.

Derivative Financial Instruments—Meredith does not engage in derivative or hedging activities, except to hedge interest rate risk on debt as described in Note 6. Fundamental to our approach to risk management is the desire to minimize exposure to volatility in interest costs of variable rate debt, which can impact our earnings and cash flows. In the first quarter of fiscal 2015, we entered into interest rate swap agreements with counterparties that are major financial institutions. These agreements effectively fix the variable rate cash flow on $200 million of a combination of our variable-rate private placement senior notes and bank term loan. We designated and accounted for the interest rate swaps as cash flow hedges in accordance with Accounting Standards Codification 815, Derivatives and Hedging. The effective portion of the change in the fair value of interest rate swaps is reported in other comprehensive income (loss). The gain or loss included in other comprehensive income (loss) is subsequently reclassified into net earnings on the same line in the Condensed Consolidated Statements of Earnings as the hedged item in the same period that the hedge transaction affects net earnings. The ineffective portion of a change in fair value of the interest rate swaps would be reported in interest expense. During the first quarter of fiscal 2015, the interest rate swap agreements were considered effective hedges and there were no gains or losses recognized in earnings for hedge ineffectiveness.

Adopted Accounting Pronouncements—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 was effective for the Company in the first quarter of fiscal 2015. The adoption of this guidance did not have an impact on our results of operations or cash flows and we have updated our presentation of unrecognized tax benefits net of our deferred tax assets where applicable on our Condensed Consolidated Balance Sheets.

6

## 2. Acquisitions

Effective February 28, 2014, Meredith acquired KMOV. The results of KMOV's operations have been included in the consolidated financial statements since that date. During the first quarter of fiscal 2015, the provisional amounts recorded to the network affiliation agreements intangible asset were increased $1.0 million, other intangibles were decreased $0.1 million, and a corresponding decrease of $0.9 million was recorded to goodwill based on an updated final valuation report.

Effective June 19, 2014, Meredith acquired KTVK and an interest in the assets of KASW. The results of KTVK's operations have been included in the consolidated financial statements since that date. As part of the FCC approval of the transaction, Meredith is required to sell its interest in the KASW assets. Accordingly, this interest is shown on the Consolidated Balance Sheet as assets held for sale. 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.

## 3. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, 53 percent are under the last-in first-out (LIFO) method at September 30, 2014, and 49 percent at June 30, 2014.

| (In thousands) | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Raw materials | $10,328 | $11,993 |
| Work in process | 13,036 | 13,398 |
| Finished goods | 3,053 | 2,814 |
| | 26,417 | 28,205 |
| Reserve for LIFO cost valuation | (4,197) | (4,197) |
| Inventories | $22,220 | $24,008 |

4. Intangible Assets and Goodwill

Intangible assets consist of the following:

| (In thousands) | September 30, 2014 Gross Amount | Accumulated Amortization | Net Amount | June 30, 2014 Gross Amount | Accumulated Amortization | Net Amount |
|---|---|---|---|---|---|---|
| Intangible assets subject to amortization | | | | | | |
| National media | | | | | | |
| Advertiser relationships | $7,129 | $(4,772) | $2,357 | $8,752 | $(6,069) | $2,683 |
| Customer lists | 6,070 | (5,013) | 1,057 | 16,257 | (14,852) | 1,405 |
| Other | 16,325 | (5,383) | 10,942 | 17,105 | (5,608) | 11,497 |
| Local media | | | | | | |
| Network affiliation agreements | 229,309 | (124,542) | 104,767 | 228,314 | (122,888) | 105,426 |
| Other | 16,605 | (835) | 15,770 | 16,733 | (188) | 16,545 |
| Total | $275,438 | $(140,545) | 134,893 | $287,161 | $(149,605) | 137,556 |
| Intangible assets not subject to amortization | | | | | | |
| National media | | | | | | |
| Internet domain names | | | 1,827 | | | 1,827 |
| Trademarks | | | 148,889 | | | 148,889 |
| Local media | | | | | | |
| FCC licenses | | | 547,259 | | | 547,259 |
| Total | | | 697,975 | | | 697,975 |
| Intangible assets, net | | | $832,868 | | | $835,531 |

Amortization expense was $3.5 million for the three months ended September 30, 2014. Annual amortization expense for intangible assets is expected to be as follows: $13.7 million in fiscal 2015, $12.0 million in fiscal 2016, $10.7 million in fiscal 2017, $10.3 million in fiscal 2018, and $10.3 million in fiscal 2019.

Changes in the carrying amount of goodwill were as follows:

| Three months ended September 30, | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (In thousands) | National Media | Local Media | Total | National Media | Local Media | Total |
| Balance at beginning of period | $789,038 | $52,589 | $841,627 | $788,854 | $— | $788,854 |
| Acquisitions | — | (867) | (867) | (68) | — | (68) |
| Balance at end of period | $789,038 | $51,722 | $840,760 | $788,786 | $— | $788,786 |

5. Restructuring Accrual

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

| Three months ended September 30, | 2014 | 2013 |
|---|---|---|
| (In thousands) | | |
| Balance at beginning of period | $13,545 | $8,103 |
| Cash payments | (4,986) | (1,402) |
| Balance at end of period | $8,559 | $6,701 |

8

6. Long-term Debt

Long-term debt consists of the following:

| (In thousands) | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Variable-rate credit facilities | | |
| Asset-backed bank facility of $100 million, due 4/24/2015 | $70,000 | $70,000 |
| Revolving credit facility of $200 million, due 3/27/2019 | 55,000 | 20,000 |
| Term loan of $250 million, due 3/27/2019 | 246,875 | 250,000 |
| | | |
| Private placement notes | | |
| 7.19% senior notes, due 7/13/2014 | — | 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 |
| Floating rate senior notes, due 2/28/2024 | 150,000 | 150,000 |
| Total long-term debt | 721,875 | 715,000 |
| Current portion of long-term debt | (62,500) | (87,500) |
| Long-term debt | $659,375 | $627,500 |

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 September 30, 2014, $156.8 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 September 30, 2014, from Meredith Funding Corporation. The agreement is structured as a true sale under which the creditors of Meredith Funding Corporation will be entitled to be satisfied out of the assets of Meredith Funding Corporation prior to any value being returned to Meredith or its creditors. The accounts of Meredith Funding Corporation are fully consolidated in Meredith's condensed consolidated financial statements.

During the first quarter of fiscal 2015, the Company entered into interest rate swap agreements to hedge variable interest rate risk on the $150 million floating-rate senior notes and on $50 million of the term loan. The expiration of the swaps is as follows: $50 million in August 2018 and $150 million in August 2019. Under the swaps the Company will pay fixed rates of interest (1.36 percent on the swap maturing in August 2018 and 1.76 percent on the swaps maturing in August 2019) and receive variable rates of interest based on the one to three-month London Interbank Offered Rate (LIBOR) (0.15 percent on the swap maturing in August 2018 and 0.23 percent on the swaps maturing in August 2019 at September 30, 2014) on the $200 million notional amount of indebtedness. The swaps are designated as cash flow hedges. The Company evaluates the effectiveness of the hedging relationships on an ongoing basis by recalculating changes in fair value of the derivatives and related hedged items independently.

Unrealized gains or losses on cash flow hedges are recorded in other comprehensive loss to the extent the cash flow hedges are effective. The amount of the swap that offsets the effects of interest rate changes on the related debt is subsequently reclassified into interest expense. Any ineffective portions on cash flow hedges are recorded in interest expense. No material ineffectiveness existed at September 30, 2014.

The fair value of the interest rate swap agreements is the estimated amount the Company would pay or receive to terminate the swap agreements. At September 30, 2014, the swaps had a fair value to the Company of $1.3 million.

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to the swap

9

agreements. This exposure is managed through diversification and the monitoring of the creditworthiness of the counterparties. The maximum amount of loss that the Company would incur on the interest rate swaps if the counterparties were to fail to meet their obligations under the agreements was $1.3 million at September 30, 2014. Given the strong creditworthiness of the counterparties, management does not expect any of them to fail to meet their obligations. Additionally, the concentration of risk with any individual counterparty is not considered significant at September 30, 2014.

Meredith guaranteed $12.5 million of debt of an unrelated third party in connection with the unrelated third party's purchase of title to the assets of KASW. This debt is expected to be repaid upon the sale of this station in fiscal 2015, at which time the guarantee will be released. The Company believes the likelihood of the guarantee being called is remote.

7. Pension and Postretirement Benefit Plans

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

| Three months ended September 30, | 2014 | | 2013 | |
|---|---|---|---|---|
| (In thousands) | | | | |
| Pension benefits | | | | |
| Service cost | $3,043 | | $2,538 | |
| Interest cost | 1,396 | | 1,398 | |
| Expected return on plan assets | (2,759 | ) | (2,422 | ) |
| Prior service cost amortization | 56 | | 81 | |
| Actuarial loss amortization | 169 | | 511 | |
| Net periodic benefit costs | $1,905 | | $2,106 | |
| | | | | |
| Postretirement benefits | | | | |
| Service cost | $29 | | $65 | |
| Interest cost | 102 | | 131 | |
| Prior service cost amortization | (108 | ) | (125 | ) |
| Actuarial gain amortization | (108 | ) | (61 | ) |
| Curtailment credit | — | | (1,511 | ) |
| Net periodic benefit | $(85 | ) | $(1,501 | ) |

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

The curtailment credit was triggered by a change in the postretirement benefit plan to no longer subsidize retiree medical coverage and life insurance for non-vested future non-union retirees.

8. Earnings per Share

The following table presents the calculations of earnings per share:

| Three months ended September 30, | 2014 | 2013 |
|---|---|---|
| (In thousands except per share data) | | |
| Net earnings | $29,365 | $24,041 |
| Basic average shares outstanding | 44,459 | 44,648 |
| Dilutive effect of stock options and equivalents | 698 | 784 |
| Diluted average shares outstanding | 45,157 | 45,432 |
| Earnings per share | | |
| Basic earnings per share | $0.66 | $0.54 |
| Diluted earnings per share | 0.65 | 0.53 |

For the three months ended September 30, 2014 and 2013, antidilutive options excluded from the above calculations totaled 1.7 million (with a weighted average exercise price of $50.06) and 1.7 million (with a weighted average exercise price of $50.70), respectively.

In the three months ended September 30, 2014 and 2013, options were exercised to purchase 0.3 million and 1.0 million 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 following table sets forth the carrying value and the estimated fair value of the Company's financial instruments:

| | September 30, 2014 | | June 30, 2014 | |
|---|---|---|---|---|
| (In thousands) | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Broadcast rights payable | $18,755 | $18,186 | $8,838 | $8,408 |
| Long-term debt | 721,875 | 724,193 | 715,000 | 717,032 |

The fair value of broadcast rights payable was determined using the present value of expected future cash flows discounted at the Company's current borrowing rate with inputs included in Level 3. The fair value of long-term

debt was determined using the present value of expected future cash flows using borrowing rates currently available for debt with similar terms and maturities with inputs included in Level 2.

The following table sets forth the asset measured at fair value on a recurring basis:

| (In thousands) | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Other assets | | |
| Interest rate swaps | $1,262 | $— |

The fair value of interest rate swaps is determined based on discounted cash flows derived using market observable inputs including swap curves that are 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, 2014. 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:

| Three months ended September 30, | 2014 | 2013 |
|---|---|---|
| (In thousands) | | |
| Revenues | | |
| National media | $246,326 | $266,899 |
| Local media | 124,858 | 89,553 |
| Total revenues | $371,184 | $356,452 |
| | | |
| Segment profit | | |
| National media | $28,895 | $28,076 |
| Local media | 36,312 | 25,676 |
| Unallocated corporate | (12,355) | (10,944) |
| Income from operations | 52,852 | 42,808 |
| Interest expense, net | (4,242) | (2,713) |
| Earnings before income taxes | $48,610 | $40,095 |
| | | |
| Depreciation and amortization | | |
| National media | $3,625 | $4,950 |
| Local media | 8,715 | 6,433 |
| Unallocated corporate | 429 | 412 |
| Total depreciation and amortization | $12,769 | $11,795 |

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 has been committed to service journalism for more than 110 years. Today, Meredith uses multiple distribution platforms—including broadcast television, print, digital, mobile, tablets, and video—to provide consumers with content they desire and to deliver the messages of its advertising and marketing partners.

Meredith operates two business segments: local media and national media. The local media segment includes 15 owned or operated television stations reaching more than 10 percent of U.S. households. Meredith’s portfolio is concentrated in large, fast-growing markets, with seven stations in the nation’s Top 25 markets—including Atlanta, Phoenix, and Portland—and 13 in Top 50 markets. Meredith’s stations produce approximately 550 hours of local news and entertainment content each week, and operate leading local digital destinations. Additionally, Meredith Video Studios produces The Better Show, a syndicated daily lifestyle television program reaching 80 percent of U.S. TV households.

Our national media segment reaches an audience of 180 million consumers monthly, including 100 million unduplicated women and 60 percent of American millennial women. Meredith is the leader in creating content across media platforms in key consumer interest areas such as food, home, parenthood, and health through well-known brands such as Better Homes and Gardens, Parents, and Allrecipes. The national media segment features robust brand licensing activities, including over 3,000 SKUs of branded products at 4,000 Walmart stores across the U.S. Meredith Xcelerated Marketing is a leader at developing and delivering custom content and customer relationship marketing programs for many of the world’s top brands.

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 66 percent of the Company's $371.2 million in revenues in the first three months of fiscal 2015 while the local media segment contributed 34 percent.

LOCAL MEDIA

Local media derives the majority of its revenues—74 percent in the first three months of fiscal 2015—from the sale of advertising, both over the air and on our stations' websites and apps. The remainder comes from television retransmission fees, station operation management 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 costs and programming fees paid to the networks.

NATIONAL MEDIA

Advertising revenues made up 51 percent of national media's first three months' revenues. These revenues were generated from the sale of advertising space in our magazines and on our websites and apps to clients interested in

14

promoting their brands, products, and services to consumers. Circulation revenues accounted for 27 percent of national media's first three 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 and other media devices. The remaining 22 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.

FIRST QUARTER FISCAL 2015 FINANCIAL OVERVIEW

- Local media revenues increased 39 percent and operating profit rose 41 percent compared to the prior-year period reflecting the acquisition of two television stations in late fiscal 2014, increased cyclical political advertising, and higher other revenues.

- National media revenues declined 8 percent as compared to the prior-year period as declines in the revenues of our magazine operations of $25.2 million more than offset increased revenues in our interactive media operations of $3.4 million. More than 40 percent of the decline in magazine operation revenues is due to the conversion of Ladies' Home Journal from a monthly subscription magazine to a newsstand-only special interest publication. National media operating profit increased 3 percent as improved operating results in our interactive media operations of $4.6 million, our integrated marketing operations of $1.3 million, and our licensing operations of $1.0 million more than offset decreases in the operating profit of our magazine operations of $6.1 million.

- Diluted earnings per share increased 23 percent to $0.65 from $0.53 in the prior-year first three months.

RESULTS OF OPERATIONS

| Three months ended September 30, | 2014 | 2013 | Change |
|---|---|---|---|
| (In thousands except per share data) | | | |
| Total revenues | $371,184 | $356,452 | 4 % |
| Operating expenses | (318,332) | (313,644) | 1 % |
| Income from operations | $52,852 | $42,808 | 23 % |
| Net earnings | $29,365 | $24,041 | 22 % |
| Diluted earnings per share | 0.65 | 0.53 | 23 % |

The following sections provide an analysis of the results of operations for the local media and national media segments and an analysis of the consolidated results of operations for the three months ended September 30, 2014, 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, 2014.

ACQUISITIONS

Meredith completed its acquisition of KMOV, the CBS affiliate in St. Louis, Missouri, on February 28, 2014, and its acquisition of KTVK, an independent station in Phoenix, Arizona, on June 19, 2014. 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.

15

LOCAL MEDIA

Local media operating results were as follows:

| Three months ended September 30, | 2014 | | 2013 | | Change | |
|---|---|---|---|---|---|---|
| (In thousands) | | | | | | |
| Non-political advertising | $79,836 | | $64,352 | | 24 | % |
| Political advertising | 12,963 | | 511 | | 2,437 | % |
| Other | 32,059 | | 24,690 | | 30 | % |
| Total revenues | 124,858 | | 89,553 | | 39 | % |
| Operating expenses | (88,546 | ) | (63,877 | ) | 39 | % |
| Operating profit | $36,312 | | $25,676 | | 41 | % |
| Operating profit margin | 29.1 | % | 28.7 | % | | |

Revenues
Local media revenues increased 39 percent in the first quarter of fiscal 2015. Political advertising revenues totaled $13.0 million in the first quarter of fiscal 2015 compared with $0.5 million in the prior-year first quarter. 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 increased 24 percent in the first three months of fiscal 2015 as compared to the prior-year period due to the addition of $17.2 million of non-political revenue from the acquisitions. Local non-political advertising revenues grew 25 percent in the first quarter. National non-political advertising revenues increased 20 percent in the first three months of fiscal 2015. Online advertising revenues grew more than 40 percent in the first quarter primarily due to the addition of the acquisitions.

For the three months ended September 30, 2014, other revenue grew 30 percent primarily due to the addition of the acquisitions and increased retransmission fees.

Operating Expenses
Local media operating expenses increased 39 percent in the first quarter of fiscal 2015. Approximately 75 percent of the increase in operating expenses is due to the addition of acquisition operating expenses. In addition, programming fees paid to the networks increased $4.3 million.

Operating Profit
Local media operating profit increased 41 percent in the first quarter of fiscal 2015 reflecting the increase in political advertising revenues and other revenues as well as the addition of the acquisitions.

NATIONAL MEDIA

National media operating results were as follows:

| Three months ended September 30, | 2014 | 2013 | Change |
|---|---|---|---|
| (In thousands) | | | |
| Advertising | $125,232 | $133,684 | (6 )% |
| Circulation | 65,885 | 75,734 | (13 )% |
| Other | 55,209 | 57,481 | (4 )% |
| Total revenues | 246,326 | 266,899 | (8 )% |
| Operating expenses | (217,431 ) | (238,823 ) | (9 )% |
| Operating profit | $28,895 | $28,076 | 3 % |
| Operating profit margin | 11.7 % | 10.5 % | |

Revenues
National media advertising revenues decreased 6 percent in the first quarter of fiscal 2015. Magazine advertising revenues declined 10 percent in the first three months of fiscal 2015. More than 40 percent of the decline in magazine advertising revenues is due to the conversion of Ladies' Home Journal from a monthly subscription magazine to a newsstand-only special interest publication. Total advertising pages decreased in the mid-teens on a percentage basis in the first quarter with most of our titles showing declines. They declined 10 percent excluding Ladies' Home Journal. For the three months ended September 30, 2014, prescription drugs showed strength while most other categories were weaker. Online advertising revenues in our digital and mobile media operations increased 17 percent in the first quarter of fiscal 2015 primarily due to strong performance at Allrecipes.com.

Magazine circulation revenues decreased 13 percent in the first three months of fiscal 2015. While subscription revenues decreased in the high-single digits on a percentage basis, newsstand revenues declined more than 25 percent. The decrease in subscription revenues is primarily due to the conversion of Ladies' Home Journal from a monthly subscription magazine to a newsstand-only special interest publication. The decline in newsstand revenues is primarily due to the wholesaler disruption in the newsstand channel.

Other revenues decreased 4 percent in the first quarter of fiscal 2015 primarily due to declines in marketing and print services revenues and book sales revenues within our magazine operations.

Operating Expenses
National media operating expenses decreased 9 percent in the first quarter of