

A. H. Belo Corp
Form 10-Q
November 01, 2016

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, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission file no. 1-33741

A. H. Belo Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

38-3765318
(I.R.S. Employer Identification No.)

Edgar Filing: A. H. Belo Corp - Form 10-Q

P. O. Box 224866, Dallas, Texas 75222-4866 (214) 977-8222
(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report.

None

Indicate by check mark whether 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

Class	Outstanding at October 28, 2016
Common Stock, \$.01 par value	21,676,260

Edgar Filing: A. H. Belo Corp - Form 10-Q

Total Common Stock consists of 19,203,564 shares of Series A Common Stock and 2,472,696 shares of Series B Common Stock.

A. H. BELO CORPORATION

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1.	<u>Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>PAGE 3</u>
Item 2.	<u>Quantitative and Qualitative Disclosures about Market Risk</u> <u>PAGE 16</u>
Item 3.	<u>Controls and Procedures</u> <u>PAGE 23</u>
Item 4.	<u>Procedures</u> <u>PAGE 23</u>
<u>PART II</u>	
Item 1.	<u>Legal Proceedings</u> <u>PAGE 23</u>
Item 1A.	<u>Risk Factors Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>PAGE 23</u>
Item 2.	<u>Defaults Upon Senior Securities</u> <u>PAGE 23</u>
Item 3.	<u>Securities</u> <u>PAGE 23</u>
Item 4.	<u>Securities</u> <u>PAGE 24</u>

Edgar Filing: A. H. Belo Corp - Form 10-Q

Mine Safety

Disclosures

Other

Item 5. Information PAGE 24

Item 6. Exhibits PAGE 25

Signatures PAGE 27

Exhibit Index PAGE 28

Table of Contents

PART I

Item 1. Financial Information

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Operations

In thousands, except share and per share amounts (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Operating Revenue:				
Advertising and marketing services	\$ 38,304	\$ 39,184	\$ 111,581	\$ 114,281
Circulation	19,633	20,279	59,806	62,133
Printing, distribution and other	6,843	7,445	22,502	22,606
Total net operating revenue	64,780	66,908	193,889	199,020
Operating Costs and Expense:				
Employee compensation and benefits	25,626	29,041	77,417	81,649
Other production, distribution and operating costs	30,615	30,562	88,844	93,037
Newsprint, ink and other supplies	6,315	7,266	18,834	23,275
Depreciation	2,488	2,780	7,725	8,695
Amortization	225	361	680	1,107
Total operating costs and expense	65,269	70,010	193,500	207,763
Operating income (loss)	(489)	(3,102)	389	(8,743)
Other Income (Expense):				
Loss from equity method investments, net	—	(564)	—	(288)
Other income (expense), net	114	(489)	601	(912)
Total other income (expense), net	114	(1,053)	601	(1,200)
Income (Loss) from Continuing Operations Before Income Taxes	(375)	(4,155)	990	(9,943)
Income tax provision (benefit)	77	(188)	1,361	(5,601)
Loss from Continuing Operations	(452)	(3,967)	(371)	(4,342)
Loss from divestiture of discontinued operations	—	(52)	—	(62)
Loss from Discontinued Operations	—	(52)	—	(62)
Net Loss	(452)	(4,019)	(371)	(4,404)
Net income (loss) attributable to noncontrolling interests	45	(63)	65	(219)
Net Loss Attributable to A. H. Belo Corporation	\$ (497)	\$ (3,956)	\$ (436)	\$ (4,185)

Edgar Filing: A. H. Belo Corp - Form 10-Q

Per Share Basis

Net loss attributable to A. H. Belo Corporation

Basic and diluted	\$ (0.02)	\$ (0.18)	\$ (0.02)	\$ (0.19)
-------------------	-----------	-----------	-----------	-----------

Number of common shares used in the per share calculation:

Basic and diluted	21,676,260	21,651,670	21,601,828	21,721,875
-------------------	------------	------------	------------	------------

See the accompanying Notes to the Consolidated Financial Statements.

A. H. Belo Corporation Third Quarter 2016 on Form 10-Q 3

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

In thousands (unaudited)	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
Net Loss	\$ (452)	\$ (4,019)	\$ (371)	\$ (4,404)
Other Comprehensive Income (Loss):				
Amortization of net actuarial (gains) losses, net of tax	(17)	313	(49)	938
Total other comprehensive income (loss)	(17)	313	(49)	938
Comprehensive Loss	(469)	(3,706)	(420)	(3,466)
Comprehensive income (loss) attributable to noncontrolling interests	45	(63)	65	(219)
Total Comprehensive Loss Attributable to A. H. Belo Corporation	\$ (514)	\$ (3,643)	\$ (485)	\$ (3,247)

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Balance Sheets

In thousands, except share amounts (unaudited)	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 78,341	\$ 78,380
Accounts receivable (net of allowance of \$940 and \$1,441 at September 30, 2016 and December 31, 2015, respectively)	26,750	31,502
Inventories	4,257	4,052
Prepays and other current assets	9,134	9,415
Assets held for sale	2,600	—
Total current assets	121,082	123,349
Property, plant and equipment, at cost	445,069	448,223
Less accumulated depreciation	(399,265)	(396,865)
Property, plant and equipment, net	45,804	51,358
Intangible assets, net	5,098	5,778
Goodwill	36,883	36,883
Investments	1,432	1,632
Other assets	3,083	2,501
Total assets	\$ 213,382	\$ 221,501
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,838	\$ 12,736
Accrued compensation and benefits	7,456	7,100
Other accrued expense	5,152	4,712
Advance subscription payments	13,211	14,424
Total current liabilities	36,657	38,972
Long-term pension liabilities	54,831	57,446
Other post-employment benefits	2,430	2,489
Deferred income taxes, net	1,059	1,046
Other liabilities	5,227	1,277
Total liabilities	100,204	101,230
Noncontrolling interest - redeemable	1,335	1,421
Shareholders' equity:		
Preferred stock, \$.01 par value; Authorized 2,000,000 shares; none issued	—	—
Common stock, \$.01 par value; Authorized 125,000,000 shares		
Series A: issued 20,620,445 and 20,522,503 shares at September 30, 2016 and December 31, 2015, respectively	207	205

Edgar Filing: A. H. Belo Corp - Form 10-Q

Series B: issued 2,472,696 and 2,387,509 shares at September 30, 2016 and December 31, 2015, respectively	24	24
Treasury stock, Series A, at cost; 1,416,881 shares held at September 30, 2016 and December 31, 2015	(11,233)	(11,233)
Additional paid-in capital	500,741	500,449
Accumulated other comprehensive loss	(38,491)	(38,442)
Accumulated deficit	(340,686)	(333,222)
Total shareholders' equity attributable to A. H. Belo Corporation	110,562	117,781
Noncontrolling interests	1,281	1,069
Total shareholders' equity	111,843	118,850
Total liabilities and shareholders' equity	\$ 213,382	\$ 221,501

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

In thousands, except share amounts (unaudited)	Common Stock		Additional Paid-in Capital		Treasury Stock		Accumulated Other Comprehensive Income		Noncontrolling Interests Total	
	Shares Series A	Shares Series B	Amount	Amount	Shares Series A	Amount	Loss	Accumulated Deficit		
Balance at December 31, 2014	20,341,501	2,388,237	\$ 227	\$ 499,320	(944,636)	\$ (8,087)	\$ (57,367)	\$ (308,330)	\$ 256	\$ 126,
Net loss	—	—	—	—	—	—	—	(4,185)	(219)	(4,4)
Other comprehensive income	—	—	—	—	—	—	938	—	—	938
Capital contributions from noncontrolling interests	—	—	—	—	—	—	—	—	2,105	2,10
Treasury stock purchases	—	—	—	—	(369,952)	(2,589)	—	—	—	(2,5)
Issuance of shares for restricted stock units	155,097	—	2	(2)	—	—	—	—	—	—
Issuance of shares for stock option exercises	18,000	—	—	71	—	—	—	—	—	71
Excess tax benefit on share-based compensation	—	—	—	546	—	—	—	—	—	546
Share-based compensation	—	—	—	537	—	—	—	—	—	537
Conversion of Series B to Series A	728	(728)	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(5,302)	—	(5,3)
Balance at September 30, 2015	20,515,326	2,387,509	\$ 229	\$ 500,472	(1,314,588)	\$ (10,676)	\$ (56,429)	\$ (317,817)	\$ 2,142	\$ 117,
Balance at December 31, 2015	20,522,503	2,387,509	\$ 229	\$ 500,449	(1,416,881)	\$ (11,233)	\$ (38,442)	\$ (333,222)	\$ 1,069	\$ 118,
Net income (loss)	—	—	—	—	—	—	—	(436)	52	(384)
Other comprehensive loss	—	—	—	—	—	—	(49)	—	—	(49)

Edgar Filing: A. H. Belo Corp - Form 10-Q

Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(236)	(236)
Capital contributions from noncontrolling interests	—	—	—	(396)	—	—	—	—	396	—
Issuance of shares for restricted stock units	97,203	—	1	(1)	—	—	—	—	—	—
Issuance of shares for stock option exercises	—	85,926	1	155	—	—	—	—	—	156
Share-based compensation	—	—	—	534	—	—	—	—	—	534
Conversion of Series B to Series A	739	(739)	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(7,028)	—	(7,028)
Balance at										
September 30, 2016	20,620,445	2,472,696	\$ 231	\$ 500,741	(1,416,881)	\$ (11,233)	\$ (38,491)	\$ (340,686)	\$ 1,281	\$ 111,

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Cash Flows

In thousands (unaudited)	Nine Months Ended September 30,	
	2016	2015
Operating Activities		
Net Loss	\$ (371)	\$ (4,404)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Loss from divestiture of discontinued operations	—	62
Depreciation and amortization	8,405	9,802
Net periodic pension and other post-employment benefits	(2,626)	(3,425)
Equity method investment loss in excess of dividends	—	1,334
Share-based compensation	534	528
Deferred income taxes	13	(3,978)
(Gain) loss on investment related activity	200	(1,046)
(Gain) loss on disposal of fixed assets	(328)	810
Other operating activities	—	675
Changes in working capital and other operating assets and liabilities, net of acquisitions	852	(9,203)
Net cash provided by (used for) continuing operations	6,679	(8,845)
Net cash used for discontinued operations	—	(23)
Net cash provided by (used for) operating activities	6,679	(8,868)
Investing Activities		
Acquisition costs, net of cash acquired	—	(14,110)
Sales of assets	328	5,911
Purchases of assets	(4,168)	(4,546)
Other investment related proceeds	—	1,045
Purchases of investments	—	(500)
Net cash used for investing activities	(3,840)	(12,200)
Financing Activities		
Dividends paid	(5,265)	(55,450)
Proceeds from other financing activities	2,566	—
Distributions to noncontrolling interests	(335)	—
Purchases of treasury stock	—	(2,589)
Proceeds from exercise of stock options	156	71
Excess tax benefit on share-based compensation	—	546
Net cash used for financing activities	(2,878)	(57,422)
Net decrease in cash and cash equivalents	(39)	(78,490)
Cash and cash equivalents, beginning of period	78,380	158,171
Cash and cash equivalents, end of period	\$ 78,341	\$ 79,681

Edgar Filing: A. H. Belo Corp - Form 10-Q

Supplemental Disclosures

Income tax paid, net of refunds	\$ 1,623	\$ 11,599
Noncash investing and financing activities:		
Investments in property and equipment not paid	\$ 603	\$ —
Noncash contributions from noncontrolling interests	\$ —	\$ 3,368

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

Note 1: Basis of Presentation and Recently Issued Accounting Standards

Description of Business. A. H. Belo Corporation and subsidiaries are referred to collectively herein as “A. H. Belo” or the “Company.” The Company, headquartered in Dallas, Texas, is a leading local news and information publishing company with commercial printing, distribution and direct mail capabilities, as well as expertise in emerging media and digital marketing. With a continued focus on extending the Company’s media platform, A. H. Belo delivers news and information in innovative ways to a broad spectrum of audiences with diverse interests and lifestyles. The Company publishes The Dallas Morning News (www.dallasnews.com), Texas’ leading newspaper and winner of nine Pulitzer Prizes; the Denton Record-Chronicle (www.dentonrc.com), a daily newspaper operating in Denton, Texas, and various niche publications targeting specific audiences. A. H. Belo also offers digital marketing solutions through Your Speakeasy, LLC (“Speakeasy”) and DMV Digital Holdings Company (“DMV Holdings”), and provides event promotion and marketing services through DMN CrowdSource LLC (“CrowdSource”).

Basis of Presentation. The interim consolidated financial statements included herein are unaudited; however, they include adjustments of a normal recurring nature which, in the Company’s opinion, are necessary to present fairly the interim consolidated financial information as of and for the periods indicated. All significant intercompany balances and transactions have been eliminated in consolidation. A. H. Belo consolidates the financial results of the entities in which it has controlling financial interests, including Speakeasy and DMV Holdings, in which the Company holds ownership percentages of 70 percent and 80 percent, respectively. As a consequence, the assets and liabilities of such entities are presented on a consolidated basis in A. H. Belo’s financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. All dollar amounts presented herein, except share and per share amounts, are in thousands, unless the context requires otherwise.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of net operating revenues and expenses recognized during the periods presented. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, actual results could differ from these estimates.

Recently Adopted Accounting Pronouncements.

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-05 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The standard became effective for annual and interim reporting periods beginning after December 15, 2015. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16 – Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This update requires that an acquirer in a business combination recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is required to record, in the same period’s financial statements, the effect on earnings, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The Company adopted this standard in the fourth quarter of 2015. Accordingly, the Company has not retroactively accounted for the changes in the purchase price allocation for DMV Holdings, which was finalized in the fourth quarter of 2015.

In March 2016, the FASB issued ASU 2016-09 – Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update affect all entities that issue share-based payment awards to their employees. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of

Table of Contents

cash flows. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. The Company early adopted this standard in the first quarter of 2016. Adoption of this standard did not materially impact the Company's financial statements.

New Accounting Pronouncements. The FASB has issued the following accounting pronouncements and guidance which may be applicable to the Company but have not yet become effective.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve the financial reporting requirements for revenue from contracts with customers by providing a principle-based approach. It also requires disclosures designed to enable readers of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Further, in March 2016, the FASB issued ASU 2016-08 – Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and in April 2016, the FASB issued ASU 2016-10 – Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-12 – Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. These updates clarify implementation guidance on the related topic. The accounting guidance updates will replace most existing revenue recognition guidance in GAAP. The standard was to be effective for annual and interim reporting periods beginning after December 15, 2016. ASU 2015-14 deferred the effective date of this update for all entities by one year. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the requirements of these updates and has not yet determined its impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842). This update requires an entity to recognize a right-of-use asset and a lease liability for virtually all of its leases. The liability will be equal to the present value of lease payments. The asset will generally be based on the liability. For income statement purposes operating leases will result in straight-line expense and finance leases will result in expenses similar to current capital leases. The guidance also requires additional disclosures to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the requirements of this update and has not yet determined its impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07 – Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. This update addresses the use of the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this update eliminate the requirement to retroactively adopt the equity method of accounting. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early

adoption is permitted. The Company is currently evaluating the requirements of this update and has not yet determined its impact on the Company's consolidated financial statements.

Note 2: Segment Reporting

The Company's operating segments are based on internal management reporting as well as product and service offerings, and are defined as: Publishing ("Publishing") and Marketing, Event Marketing and Other Services ("MEMO").

The Publishing segment includes the Company's core print operations associated with its newspapers, niche publications and related websites. These operations generate revenue from sales of advertising within newspaper and digital platforms, subscription and retail sales of newspapers and commercial printing and distribution services primarily related to national and regional newspapers and preprint advertisers. Businesses within the Publishing segment leverage production facilities, subscriber base and digital news platforms to provide additional contribution margin. The Company assesses the performance of Publishing operations on the basis of operating profit and cash flows from operating activities.

The MEMO segment is comprised of the Company's marketing, event marketing and other businesses. Marketing services and product offerings include multi-channel marketing services and software, targeted-channel marketing services, marketing analytics, content development, social media management and other consulting services. Marketing services also include non-digital marketing products, including sales of business promotional items and sales of pay-for-performance services directed primarily to other newspaper companies. Marketing services include the operations of DMV Holdings, Speakeasy and Proven Performance Media, as well as its operating division doing business as Connect and its cars.com sales division.

Table of Contents

Event marketing includes the operations of CrowdSource, which promotes community events.

The Company assesses the performance of MEMO operations on the basis of revenue growth and operating profit in conjunction with the expansion of these businesses within their respective markets.

The following tables show summarized financial information for the Company's reportable segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue				
Publishing	\$ 52,606	\$ 57,060	\$ 160,821	\$ 173,271
MEMO	12,174	9,848	33,068	25,749
Total	\$ 64,780	\$ 66,908	\$ 193,889	\$ 199,020
Operating Income (Loss)				
Publishing	\$ (1,975)	\$ (3,939)	\$ (3,018)	\$ (9,083)
MEMO	1,486	837	3,407	340
Total	\$ (489)	\$ (3,102)	\$ 389	\$ (8,743)
Depreciation and Amortization				
Publishing				
Depreciation	\$ 2,467	\$ 2,752	\$ 7,665	\$ 8,607
Amortization	—	30	—	90
Total	\$ 2,467	\$ 2,782	\$ 7,665	\$ 8,697
MEMO				
Depreciation	\$ 21	\$ 28	\$ 60	\$ 88
Amortization	225	331	680	1,017
Total	\$ 246	\$ 359	\$ 740	\$ 1,105

	September 30, 2016	December 31, 2015
Total Assets		
Publishing	\$ 189,446	\$ 196,912
MEMO	23,936	24,589
Total	\$ 213,382	\$ 221,501

Note 3: Sales of Assets

Assets held for sale include long-lived assets being actively marketed for which a sale is considered probable within the next 12 months. These assets are recorded at the lower of their fair value less costs to sell or their carrying value at the time they are classified as assets held for sale. In the third quarter of 2016, the Company commenced due diligence related to the sale of a parking lot located in downtown Dallas, Texas. This asset, with a total carrying value of \$2,600, is reported as assets held for sale as of September 30, 2016.

In June 2015, the Company completed the sale of land and a building which served as the headquarters of The Providence Journal, a publication formerly owned by the Company. The Company received net proceeds of \$6,119 in the second quarter of 2015 upon closing of the transaction, generating a loss of \$265, which was offset by \$328 of returned escrow received in the second quarter of 2016. Also during the second quarter of 2015, the Company demolished existing structures on an additional property in Providence, Rhode Island, at a cost of \$412.

Table of Contents

Note 4: Goodwill and Intangible Assets

Goodwill and other intangible assets by reportable segment as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Goodwill		
Publishing	\$ 22,682	\$ 22,682
MEMO	14,201	14,201
Total	\$ 36,883	\$ 36,883
Intangible Assets		
MEMO		
Cost	\$ 6,710	\$ 6,710
Accumulated Amortization	(1,612)	(932)
Net Carrying Value	\$ 5,098	\$ 5,778

Intangible assets consist of \$5,190 of customer relationships with estimated useful lives of 10 years and \$1,520 of developed technology with an estimated useful life of five years. Aggregate amortization expense was \$225 and \$680 for the three and nine months ended September 30, 2016, respectively, and \$361 and \$1,107 for the three and nine months ended September 30, 2015, respectively.

Note 5: Long-term Incentive Plan

A. H. Belo sponsors a long-term incentive plan (the "Plan") under which 8,000,000 shares of the Company's Series A common stock are authorized for equity-based awards. Awards may be granted to A. H. Belo employees and outside directors in the form of non-qualified stock options, incentive stock options, restricted share awards, restricted stock units ("RSUs"), performance shares, performance units or stock appreciation rights. In addition, stock options may be accompanied by full and limited stock appreciation rights. Rights and limited stock appreciation rights may also be issued without accompanying stock options. Awards under the Plan were also granted to holders of stock options issued by A.H. Belo's former parent company in connection with the Company's separation from its former parent in 2008.

Stock Options. Stock options granted under the Plan are fully vested and exercisable. No options have been granted since 2009, and all compensation expense associated with stock options has been fully recognized as of September 30, 2016.

The table below sets forth a summary of stock option activity under the Plan.

	Number of Options	Weighted–Average Exercise Price
Outstanding at December 31, 2015	259,311	\$ 8.37
Exercised	(85,926)	1.81
Canceled	(26,942)	18.57
Outstanding at September 30, 2016	146,443	\$ 10.34

No options were exercised in the three months ended September 30, 2016 and 2015. The aggregate intrinsic value of options exercised in the nine months ended September 30, 2016 and 2015, was \$300 and \$100, respectively. The aggregate intrinsic value of outstanding options at September 30, 2016, was \$89. The weighted average remaining contractual life of the Company's stock options was 1.4 years as of September 30, 2016.

Table of Contents

Restricted Stock Units. The Company's RSUs have a service condition and, subject to retirement eligibility, vest over a period of up to three years. Vested RSUs are redeemed 60 percent in A. H. Belo Series A common stock and 40 percent in cash over a period of three years. As of September 30, 2016, the liability for the portion of the award to be redeemed in cash was \$793. The table below sets forth a summary of RSU activity under the Plan.

	Total RSUs	Issuance of Common Stock	RSUs Redeemed in Cash	Cash Payments at Closing Price of Stock	Weighted- Average Price on Date of Grant
Non-vested at December 31, 2015	92,355				\$ 7.13
Granted	202,955				5.47
Vested and outstanding	(142,113)				5.90
Vested and issued	(18,668)	11,196	7,472	\$ 44	8.10
Non-vested at September 30, 2016	134,529				\$ 5.79

For the nine months ended September 30, 2016, the Company issued 86,007 shares that were previously vested as of December 31, 2015. In addition, there were 223,676 and 224,911 RSUs that were vested and outstanding as of September 30, 2016 and December 31, 2015, respectively.

The fair value of RSU grants is determined using the closing trading price of the Company's Series A common stock on the grant date. As of September 30, 2016, unrecognized compensation expense related to non-vested RSUs totaled \$496, which is expected to be recognized over a weighted-average period of 1.1 years.

Compensation Expense. A. H. Belo recognizes compensation expense for awards granted under the Plan over the vesting period of the award. Compensation expense related to RSUs granted under the Plan is set forth in the table below.

	RSUs Redeemable in Stock	RSUs Redeemable in Cash	Total RSU Awards Expense
Three months ended September 30, 2016	\$ 86	\$ 303	\$ 389
2015	77	(32)	45
Nine months ended September 30, 2016	\$ 534	\$ 604	\$ 1,138
2015	528	(399)	129

Note 6: Income Taxes

The interim provision for income taxes reflects the Company's estimate of the effective tax rate expected to be applied for the full fiscal year, adjusted for any discrete transactions which are reported in the period in which they occur. The estimated annual effective tax rate is reviewed each quarter based on the Company's estimated income tax expense for the year. Under certain circumstances, the Company may be precluded from estimating an annual effective tax rate. Such circumstances may include periods in which tax rates vary significantly due to earnings trends, in addition to the existence of significant permanent or temporary differences. Under such circumstances, a discrete tax rate is calculated for the period.

The Company recognized income tax provision (benefit) from continuing operations of \$77 and \$(188) for the three months ended September 30, 2016 and 2015, respectively, and \$1,361 and \$(5,601) for the nine months ended September 30, 2016 and 2015, respectively. Effective income tax rates from continuing operations were 137.5 percent and 56.3 percent for the nine months ended September 30, 2016 and 2015, respectively. The effective income tax rate for the nine months ended September 30, 2016, was higher when compared to the prior year period due to taxable income, changes in valuation allowance and the disposition of fixed assets.

Note 7: Pension and Other Retirement Plans

Edgar Filing: A. H. Belo Corp - Form 10-Q

Defined Benefit Plans. The Company sponsors the A. H. Belo Pension Plans, which provide benefits to approximately 2,300 current and former employees of the Company. A. H. Belo Pension Plan I provides benefits to certain current and former employees primarily employed with The Dallas Morning News or the A. H. Belo corporate offices. A. H. Belo Pension Plan II provides benefits to certain former employees of The Providence Journal Company. This obligation was retained by the Company upon the sale of the

12 A. H. Belo Corporation Third Quarter 2016 on Form 10-Q

Table of Contents

newspaper operations of The Providence Journal. No additional benefits are accruing under the A. H. Belo Pension Plans, as future benefits were frozen.

No contributions are required to the A. H. Belo Pension Plans in 2016 under the applicable tax and labor laws governing pension plan funding.

Net Periodic Pension Benefit

The Company's estimates of net periodic pension expense or benefit are based on the expected return on plan assets, interest on the projected benefit obligations and the amortization of actuarial gains and losses that are deferred in accumulated other comprehensive loss. The table below sets forth components of net periodic pension benefit.

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Interest cost	\$ 2,525	\$ 3,540	\$ 7,574	\$ 10,620
Expected return on plans' assets	(3,396)	(5,008)	(10,189)	(15,024)
Amortization of actuarial loss	11	313	42	938
Net periodic pension benefit	\$ (860)	\$ (1,155)	\$ (2,573)	\$ (3,466)

Defined Contribution Plans. The A. H. Belo Savings Plan, a defined contribution 401(k) plan, covers substantially all employees of A. H. Belo. Participants may elect to contribute a portion of their pretax compensation as provided by the plan and the Internal Revenue Code. Employees can contribute up to 100 percent of their annual eligible compensation less required withholdings and deductions up to statutory limits. The Company provides an ongoing dollar-for-dollar match of eligible employee contributions, up to 1.5 percent of the employees' compensation on a per-pay-period basis. During the three months ended September 30, 2016 and 2015, the Company recorded expense of \$248 and \$239, respectively, and during the nine months ended September 30, 2016 and 2015, the Company recorded expense of \$749 and \$765, respectively, for matching contributions to the plan.

Note 8: Shareholders' Equity

Dividends. On September 8, 2016, the Company announced a \$0.08 per share dividend to shareholders of record and holders of RSUs as of the close of business on November 10, 2016, which is payable on December 2, 2016. During the three months ended September 30, 2016, the Company recorded \$1,763 to accrue for dividends declared but not yet paid.

Accumulated other comprehensive loss. Accumulated other comprehensive loss consists of actuarial gains and losses attributable to the A. H. Belo Pension Plans, gains and losses resulting from plan amendments and other actuarial experience attributable to other post-employment benefit plans. The Company records amortization of the components of accumulated other comprehensive loss in employee compensation and benefits in its Consolidated Statements of Operations. Gains and losses associated with the A. H. Belo Pension Plans are amortized over the weighted average remaining life expectancy of plan participants. Gains and losses associated with the Company's other post-employment benefit plans are amortized over the average remaining service period of active plan participants. Net deferred tax assets associated with the accumulated other comprehensive loss are fully reserved.

Table of Contents

The tables below sets forth the changes in accumulated other comprehensive loss, net of tax, as presented in the Company's consolidated financial statements.

	Three Months Ended September 30, 2016			2015		
	Total	Defined benefit pension plans	Other post- employment benefit plans	Total	Defined benefit pension plans	Other post- employment benefit plans
Balance, beginning of period	\$ (38,474)	\$ (38,867)	\$ 393	\$ (56,742)	\$ (57,028)	\$ 286
Amortization	(17)	11	(28)	313	314	(1)
Balance, end of period	\$ (38,491)	\$ (38,856)	\$ 365	\$ (56,429)	\$ (56,714)	\$ 285

	Nine Months Ended September 30, 2016			2015		
	Total	Defined benefit pension plans	Other post- employment benefit plans	Total	Defined benefit pension plans	Other post- employment benefit plans
Balance, beginning of period	\$ (38,442)	\$ (38,898)	\$ 456	\$ (57,367)	\$ (57,654)	\$ 287
Amortization	(49)	42	(91)	938	940	(2)
Balance, end of period	\$ (38,491)	\$ (38,856)	\$ 365	\$ (56,429)	\$ (56,714)	\$ 285

Note 9: Earnings Per Share

The table below sets forth the reconciliation for net loss and weighted average shares used for calculating basic and diluted earnings per share ("EPS"). The Company's Series A and B common stock equally share in the distributed and undistributed earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Earnings (Numerator)				
Net loss attributable to A. H. Belo Corporation	\$ (497)	\$ (3,956)	\$ (436)	\$ (4,185)
Less: Loss from discontinued operations	—	(52)	—	(62)
Less: Dividends to participating securities	29	26	83	88
Net loss available to common shareholders from continuing operations	\$ (526)	\$ (3,930)	\$ (519)	\$ (4,211)
Shares (Denominator)				
Weighted average common shares outstanding (basic and diluted)	21,676,260	21,651,670	21,601,828	21,721,875
Loss Per Share from Continuing Operations				
Basic and diluted	\$ (0.02)	\$ (0.18)	\$ (0.02)	\$ (0.19)

Holders of service-based RSUs participate in A. H. Belo dividends on a one-for-one share basis. Distributed and undistributed income associated with participating securities is included in the calculation of EPS under the two-class method as prescribed under ASC 260 – Earnings Per Share.

The Company considers outstanding stock options and RSUs in the calculation of earnings per share. A total of 504,648 and 699,780 options and RSUs outstanding during the three and nine months ended September 30, 2016 and 2015, respectively, were excluded from the calculation because the effect was anti-dilutive.

Note 10: Contingencies

Legal proceedings. From time to time, the Company is involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. Management routinely assesses the likelihood of adverse judgments or outcomes in these matters, as well as the ranges of probable losses to the extent losses are reasonably estimable. Accruals for contingencies are recorded when, in the

Table of Contents

judgment of management, adverse judgments or outcomes are probable and the financial impact, should an adverse outcome occur, is reasonably estimable. The determination of likely outcomes of litigation matters relates to factors that include, but are not limited to, past experience and other evidence, interpretation of relevant laws or regulations and the specifics and status of each matter. Predicting the outcome of claims and litigation and estimating related costs and financial exposure involves substantial uncertainties that could cause actual results to vary materially from estimates and accruals.

The Company is currently involved in a dispute with a customer regarding performance and pricing terms with respect to a change order to its printing services contract with the Company. Although the Company believes its position related to the contract can be sustained on its legal merits, it is reasonably possible that losses from zero up to the total amount of disputed invoices, totaling approximately \$1,500, could be incurred in connection with the dispute.

In the opinion of management, liabilities, if any, arising from other currently existing claims against the Company would not have a material adverse effect on A. H. Belo's results of operations, liquidity or financial condition.

Pro-rata distributions. In connection with the acquisition of DMV Holdings, the shareholder agreement provides for a pro-rata distribution of 100 percent and 50 percent of DMV Holdings' free cash flow for fiscal years 2015 and 2016, respectively. Free cash flow is defined as earnings before interest, taxes, depreciation and amortization less capital expenditures, debt amortization and interest expense, as applicable. In the nine months ended September 30, 2016, the Company made pro-rata distributions to noncontrolling interests of \$264 in connection with this agreement based on 2015 free cash flow as defined.

Note 11: Redeemable Noncontrolling Interest

In connection with the acquisition of DMV Holdings, the Company entered into a shareholder agreement which provides for a put option to a noncontrolling shareholder. The put option provides the shareholder with the right to require the Company to purchase up to 25 percent of the noncontrolling ownership interest in DMV Holdings between the second and third anniversaries of the agreement and up to 50 percent of the noncontrolling ownership interest in DMV Holdings between the fourth and fifth anniversaries of the agreement.

The exercisability of the noncontrolling interest put option is outside the control of the Company. As such, the redeemable noncontrolling interest of \$1,335 and \$1,421 is reported in the mezzanine equity section of the Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, respectively. In the event that the put option expires unexercised, the related portion of noncontrolling interest would be classified as a component of equity in the Consolidated Balance Sheets.

Redeemable noncontrolling interest is recorded at fair value on the acquisition date and the carrying value is adjusted each period for its share of the earnings related to DMV Holdings. After the carrying value is adjusted for its share of the earnings related to DMV Holdings, the carrying value is adjusted for the change in fair value, which is the greater of the estimated redemption value or the value that would otherwise be assigned if the interest was not redeemable. Adjustments are recorded to retained earnings or additional paid in capital, as applicable, and have no effect to earnings of the Company. During the nine months ended September 30, 2016, redeemable noncontrolling interest was increased by \$13 for its share of the DMV Holdings' earnings and decreased by \$99 for distributions related to 2015 free cash flow as required under the shareholder agreement.

A. H. Belo Corporation Third Quarter 2016 on Form 10-Q 15

Table of Contents

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

A. H. Belo intends for the discussion of its financial condition and results of operations that follows to provide information that will assist in understanding its financial statements, the changes in certain key items in those statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect its financial statements. The following information should be read in conjunction with the Company's consolidated financial statements and related notes filed as part of this report. Unless otherwise noted, amounts in Management's Discussion and Analysis reflect continuing operations of the Company, and all dollar amounts are presented in thousands, except per share amounts.

OVERVIEW

A. H. Belo, headquartered in Dallas, Texas, is a leading local news and information publishing company with commercial printing, distribution and direct mail capabilities, as well as expertise in emerging media and digital marketing. With a continued focus on extending the Company's media platform, A. H. Belo is able to deliver news and information in innovative ways to a broad spectrum of audiences with diverse interests and lifestyles.

The Company's Publishing segment includes the operations of The Dallas Morning News (www.dallasnews.com), Texas' leading newspaper and winner of nine Pulitzer Prizes; the Denton Record-Chronicle (www.dentonrc.com), a daily newspaper operating in Denton, Texas, and various niche publications targeting specific audiences. Its newspaper operations also provide commercial printing and distribution services to large national and regional newspapers and other businesses in the North Texas region.

All other operations are reported within the Company's Marketing, Event Marketing and Other Services segment. These operations primarily include sales of online automotive classifieds on the cars.com platform; marketing services generated by the Company's branded marketing division Connect; Speakeasy; Proven Performance Media; and DMV Holdings and its subsidiaries Distribion, Inc., Vertical Nerve, Inc. and CDFX, LLC ("MarketingFX"). The segment also includes event promotion and marketing services provided by CrowdSource.

In January 2015, the Company acquired an 80 percent voting interest in DMV Holdings, into which the stock of three Dallas-based companies, Distribion, Inc., Vertical Nerve, Inc. and MarketingFX, were contributed. These businesses specialize in local marketing automation, search engine marketing, and direct mail and promotional products, respectively. The Company believes this acquisition complements the product and service offerings currently available to A. H. Belo clients, thereby strengthening the Company's diversified product portfolio and allowing for greater penetration in a competitive advertising market. DMV Holdings was acquired for a cash purchase price of

\$14,110.

16 A. H. Belo Corporation Third Quarter 2016 on Form 10-Q

Table of Contents

RESULTS OF CONTINUING OPERATIONS

Consolidated Results of Continuing Operations

The table below sets forth the components of A. H. Belo's operating income (loss) by segment.

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2016	Percentage Change	2015	2016	Percentage Change	2015	
Publishing							
Advertising and marketing services	\$ 26,487	(11.4) %	\$ 29,909	\$ 81,219	(10.4) %	\$ 90,635	
Circulation	19,633	(3.2) %	20,279	59,806	(3.7) %	62,133	
Printing, distribution and other	6,486	(5.6) %	6,872	19,796	(3.4) %	20,503	
Total Net Operating Revenue	52,606	(7.8) %	57,060	160,821	(7.2) %	173,271	
Total Operating Costs and Expense	54,581	(10.5) %	60,999	163,839	(10.2) %	182,354	
Operating Loss	\$ (1,975)	49.9 %	\$ (3,939)	\$ (3,018)	66.8 %	\$ (9,083)	
MEMO							
Advertising and marketing services	\$ 11,817	27.4 %	\$ 9,275	\$ 30,362	28.4 %	\$ 23,646	
Printing, distribution and other	357	(37.7) %	573	2,706	28.7 %	2,103	
Total Net Operating Revenue	12,174	23.6 %	9,848	33,068	28.4 %	25,749	
Total Operating Costs and Expense	10,688	18.6 %	9,011	29,661	16.7 %	25,409	
Operating Income	\$ 1,486	77.5 %	\$ 837	\$ 3,407	902.1 %	\$ 340	

Traditionally, the Company's primary revenues are generated from advertising within its core newspapers, niche publications and related websites and from subscription and single copy sales of its printed newspapers. As a result of competitive and economic conditions, the newspaper industry has faced a significant revenue decline over the past decade. Therefore, the Company has sought to diversify its revenues through development and investment in new product offerings, increased circulation rates and leveraging of its existing assets to offer cost efficient commercial

printing and distribution services to its local markets. The Company continually evaluates the overall performance of its core products to ensure existing assets are deployed adequately to maximize return.

The Company's advertising revenue from its core newspapers continues to be adversely affected by the shift of advertiser spending to other forms of media and the increased accessibility of free online news content, as well as news content from other sources, which resulted in declines in advertising and paid print circulation volumes and revenue. The most significant decline in advertising revenue has been attributable to print display and classified categories. These categories, which represented 29.9 percent of consolidated revenue in 2013, have declined to 20.5 percent of consolidated revenue thus far in 2016, and further declines are likely in future periods. Decreases in print display and classified categories are indicative of continuing trends by advertisers towards digital platforms, which are widely available from many sources. In the current environment, companies are allocating more of their advertising spending towards programmatic channels that provide digital advertising on multiple platforms with enhanced technology for targeted delivery and measurement. The Company has responded to these challenges by expanding the programmatic channels through which it works to meet customer demand for digital advertisement opportunities in display, mobile, video and social media categories. By utilizing advertising exchanges to apply marketing insight, the Company believes it offers greater value to clients through focused targeting of advertising to potential customers.

The Company's expanded digital and marketing services product offerings leverage the Company's existing resources and relationships to offer additional value to existing and new advertising clients. Solutions provided by DMV Holdings include development of mobile websites, search engine marketing and optimization, video, mobile advertising, email marketing, advertising analytics and online reputation management services. Through Speakeasy, the Company is able to target middle-market business customers and provide turnkey social media account management and content development services.

Table of Contents

Advertising and marketing services revenue

Advertising and marketing services revenue was 59.1 percent and 57.5 percent of total revenue for the three and nine months ended September 30, 2016, respectively, and 58.6 percent and 57.4 percent for the three and nine months ended September 30, 2015, respectively.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	Percentage Change	2015	2016	Percentage Change	2015
Publishing						
Display advertising	\$ 7,933	(21.5) %	\$ 10,108	\$ 24,910	(22.6) %	\$ 32,167
Classified advertising	4,984	2.3 %	4,871	14,882	(3.6) %	15,437
Preprint advertising	11,365	(8.3) %	12,392	34,140	(3.9) %	35,530
Digital advertising	2,205	(13.1) %	2,538	7,287	(2.9) %	7,501
MEMO						
Digital services	10,742	24.7 %	8,616	27,679	25.3 %	22,099
Other services	1,075	63.1 %	659	2,683	73.4 %	1,547
Advertising and Marketing Services	\$ 38,304	(2.2) %	\$ 39,184	\$ 111,581	(2.4) %	\$ 114,281

Publishing

Display – Display revenue primarily represents sales of non-classified advertising space within the Company’s core and niche newspapers. As advertisers continue to diversify marketing budgets to incorporate more and varied avenues of reaching consumers, traditional display advertising continues to decline. Revenue decreased due to lower retail advertising in substantially all categories except other retail in the three months ended September 30, 2016 and sporting goods in both periods. The department store, food and beverage, entertainment and furniture categories experienced the greatest declines with a combined revenue decrease of approximately \$1,557 and \$2,303, for the three and nine months ended September 30, 2016, respectively. The revenue decrease was driven heavily by a volume decline of 16.0 percent and 14.5 percent for the three and nine months ended September 30, 2016, respectively.

Classified – Classified primarily represents sales of classified advertising space within the Company’s core and niche newspapers. Growth in classified advertising revenue continues to be challenging as alternative digital outlets

continue to emerge. Rate improvement trends in certain display advertising categories partially offset the volume decline. Overall classified revenue increased slightly during the three months ended September 30, 2016, and decreased in the nine months ended September 30, 2016, due to lower volumes in all categories except real estate and legal. This decline was partially offset by higher rates in automotive and employment.

Preprint – Preprint primarily reflects preprinted advertisements inserted into the Company’s core newspapers and niche publications, or distributed to non-subscribers through the mail. Revenue decreased due to a decline in the volume of preprint newspaper inserts, consistent with the decline in circulation volumes, discussed below, partially offset by higher volumes in home delivery mail advertising.

Digital – Digital publishing is primarily comprised of banner and real estate classified advertising on The Dallas Morning News’ website dallasnews.com as well as online employment and obituary classified advertising on third-party websites sold under a print/digital bundle package. Revenue decreased due to a lower volume of online banner advertisements on dallasnews.com.

Marketing, Event Marketing and Other Services

Digital services – Digital marketing includes targeted and multi-channel advertising placed on third-party websites, content development, social media management, search optimization, other consulting, and sales of online automotive classifieds on the cars.com platform. The 2015 acquisition of DMV Holdings provided a significant portion of the growth in digital marketing revenue. DMV Holdings revenue increased \$2,109 and \$4,332 in the three and nine months ended September 30, 2016, respectively. The DMV Holdings revenue increase offset approximately 61.6 percent and 46.0 percent of the core print advertising revenue decline in the three and nine months ended September 30, 2016, respectively.

Other services – Other services revenue increased \$416 and \$1,136 in the three and nine months ended September 30, 2016, respectively, due to the sale of promotional merchandise by MarketingFX.

Table of Contents

Circulation revenue

Circulation revenue was 30.3 percent and 30.8 percent of total revenue for the three and nine months ended September 30, 2016, respectively, and 30.3 percent and 31.2 percent for the three and nine months ended September 30, 2015, respectively.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	Percentage Change	2015	2016	Percentage Change	2015
Publishing Circulation	\$ 19,633	(3.2) %	\$ 20,279	\$ 59,806	(3.7) %	\$ 62,133

Revenue decreased due to a decline in home delivery and single copy paid print circulation volumes of 9.2 percent and 12.5 percent, respectively, for the three months ended September 30, 2016, and 8.5 percent and 14.1 percent, respectively, for the nine months ended September 30, 2016. These volume declines were partially offset by a rate increase of 6.9 percent in both periods for home delivery.

Volume declines in circulation revenue have been more pronounced with single copy sales as it competes for retail space. Price increases and supplemental editions are critical to maintaining the revenue base to support this product. During the three and nine months ended September 30, 2016, the Company generated \$315 and \$402, respectively, of incremental circulation revenue through the distribution of specialty magazines to its core subscribers.

Printing, distribution and other revenue

Printing, distribution and other revenue was 10.6 percent and 11.7 percent of total revenue for the three and nine months ended September 30, 2016, respectively, and 11.1 percent and 11.4 percent for the three and nine months ended September 30, 2015, respectively.

Edgar Filing: A. H. Belo Corp - Form 10-Q

	Three Months Ended September 30,			Nine Months Ended September 30,			2015
	2016	Percentage Change		2016	Percentage Change		
Publishing							
Commercial print and distribution	\$ 6,486	(5.6) %	\$ 6,872	\$ 19,796	(3.4) %	\$ 20,503	
MEMO							
Event marketing and other	357	(37.7) %	573	2,706	28.7 %	2,103	
Printing, Distribution and Other	\$ 6,843	(8.1) %	\$ 7,445	\$ 22,502	(0.5) %	\$ 22,606	

Publishing – The Company aggressively markets the capacity of their printing and distribution assets to other newspapers that would benefit from cost sharing arrangements. Revenue decreased due to a decline in volumes associated with certain national newspapers. This decrease was partially offset by commencement of printing operations related to a regional newspaper in January 2016.

Marketing, Event Marketing and Other Services – CrowdSource, the Company’s event marketing provider, works closely with cities and other corporate sponsors to bring large entertainment events to local communities. Revenue decreased \$216 for the three months ended September 30, 2016, and increased \$603 for the nine months ended September 30, 2016. The decrease for the three months ended September 30, 2016, is primarily related to an event hosted by CrowdSource in the third quarter of 2015, which the Company will not host in 2016.

Table of Contents

Operating Costs and Expense

The table below sets forth the components of the Company's operating costs and expense.

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2016	Percentage Change	2015	2016	Percentage Change	2015	
Publishing							
Employee compensation and benefits	\$ 22,047	(14.9) %	\$ 25,910	\$ 66,840	(8.1) %	\$ 72,693	
Other production, distribution and operating costs	24,109	(4.4) %	25,207	71,274	(9.0) %	78,324	
Newsprint, ink and other supplies	5,958	(16.1) %	7,100	18,060	(20.2) %	22,640	
Depreciation	2,467	(10.4) %	2,752	7,665	(10.9) %	8,607	
Amortization	—	(100.0) %	30	—	(100.0) %	90	
MEMO							
Employee compensation and benefits	3,579	14.3 %	3,131	10,577	18.1 %	8,956	
Other production, distribution and operating costs	6,506	21.5 %	5,355	17,570	19.4 %	14,713	
Newsprint, ink and other supplies	357	115.1 %	166	774	21.9 %	635	
Depreciation	21	(25.0) %	28	60	(31.8) %	88	
Amortization	225	(32.0) %	331	680	(33.1) %	1,017	
Total Operating Costs and Expense	\$ 65,269	(6.8) %	\$ 70,010	\$ 193,500	(6.9) %	\$ 207,763	

Publishing

Employee compensation and benefits – The Company continues to implement measures to optimize its workforce and reduce risk associated with future obligations towards employee benefit plans. Employee compensation and benefits decreased \$3,863 and \$5,853 in the three and nine months ended September 30, 2016, respectively, due to headcount reductions within the Company that were effected in the second half of 2015.

Other production, distribution and operating costs – Expense decreased in the Company's Publishing segment reflecting savings as the Company continues to manage discretionary spending. Savings were generated by reductions in temporary and personnel recruiting services, promotional spending and travel.

Newsprint, ink and other supplies – Expense decreased due to reduced newsprint costs associated with lower circulation volumes from the Company and certain third-party newspapers and the discontinuation of unprofitable product lines. Newsprint consumption for the three months ended September 30, 2016 and 2015, approximated 6,627 and 7,516 metric tons, respectively, at an average cost per metric ton of \$542 and \$550, respectively. Newsprint consumption for the nine months ended September 30, 2016 and 2015, approximated 20,022 and 23,162 metric tons, respectively, at an average cost per metric ton of \$523 and \$543, respectively. The average purchase price for newsprint was \$561 and \$529 for the three months ended September 30, 2016 and 2015, respectively, and \$532 and \$551 for the nine months ended September 30, 2016 and 2015, respectively.

Depreciation – Expense decreased due to a lower depreciable asset base as a higher level of in-service assets are now fully depreciated.

Amortization – All definite-lived intangible assets are fully amortized.

Marketing, Event Marketing and Other Services

Employee compensation and benefits – Expense increased in the three and nine months ended September 30, 2016, primarily related to the growth associated with DMV Holdings of \$731 and \$2,208, respectively. As of September 30, 2016 and 2015, DMV Holdings employed 76 and 54 personnel, respectively.

Other production, distribution and operating costs – Expense increased in the three and nine months ended September 30, 2016, in connection with growth in DMV Holdings of \$1,412 and \$2,490, respectively.

Newsprint, ink and other supplies – Expense increased \$191 and \$139 in the three and nine months ended September 30, 2016, respectively, primarily due to an increase in promotional material printing costs associated with MarketingFX.

Table of Contents

Depreciation – Marketing and event services’ cost structure is primarily labor driven. Capital purchases are required to support technology investments, the Company’s websites and customer engaging applications. Capital assets are primarily depreciated over a life of three years.

Amortization – Expense decreased in the three and nine months ended September 30, 2016, primarily related to customer lists associated with DMV Holdings of \$80 and \$241, respectively.

Other

The table below sets forth the other components of the Company’s results of operations.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	Percentage Change	2015	2016	Percentage Change	2015
Other Income (Expense):						
Loss from equity method investments, net	\$ —	100.0 %	\$ (564)	\$ —	100.0 %	\$ (288)
Other income (expense), net	114	123.3 %	(489)	601	165.9 %	(912)
Total other income (expense), net	\$ 114	110.8 %	\$ (1,053)	\$ 601	150.1 %	\$ (1,200)
Income Tax Provision (Benefit)	\$ 77	141.0 %	\$ (188)	\$ 1,361	124.3 %	\$ (5,601)

Other Income (Expense) – Other income (expense) is primarily comprised of losses from investments and gain (loss) on disposal of fixed assets. In the fourth quarter of 2015, the Company’s ownership interest in Wonderful Media, LLC (“Wonderful”) decreased to less than 20 percent of the outstanding membership interests of Wonderful. Accordingly, the Company discontinued the use of the equity method of accounting for the investment in Wonderful, and began accounting for the investment under the cost method.

Tax provision – The effective income tax rate for the nine months ended September 30, 2016, was higher when compared to the prior year period due to taxable income, changes in valuation allowance and the disposition of fixed assets.

Sales of Assets – Assets held for sale include long-lived assets being actively marketed for which a sale is considered probable within the next 12 months. These assets are recorded at the lower of their fair value less costs to sell or their carrying value at the time they are classified as assets held for sale. In the third quarter of 2016, the Company commenced due diligence related to the sale of a parking lot located in downtown Dallas, Texas. This asset, with a total carrying value of \$2,600, is reported as assets held for sale as of September 30, 2016.

In June 2015, the Company completed the sale of land and a building which served as the headquarters of The Providence Journal, a publication formerly owned by the Company. The Company received net proceeds of \$6,119 in the second quarter of 2015 upon closing of the transaction, generating a loss of \$265, which was offset by \$328 of returned escrow received in the second quarter of 2016. Also during the second quarter of 2015, the Company demolished existing structures on an additional property in Providence, Rhode Island, at a cost of \$412.

Legal proceedings – From time to time, the Company is involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. Management routinely assesses the likelihood of adverse judgments or outcomes in these matters, as well as the ranges of probable losses to the extent losses are reasonably estimable. Accruals for contingencies are recorded when, in the judgment of management, adverse judgments or outcomes are probable and the financial impact, should an adverse outcome occur, is reasonably estimable. The determination of likely outcomes of litigation matters relates to factors that include, but are not limited to, past experience and other evidence, interpretation of relevant laws or regulations and the specifics and status of each matter. Predicting the outcome of claims and litigation and estimating related costs and financial exposure involves substantial uncertainties that could cause actual results to vary materially from estimates and accruals.

The Company is currently involved in a dispute with a customer regarding performance and pricing terms with respect to a change order to its printing services contract with the Company. Although the Company believes its position related to the contract can be sustained on its legal merits, it is reasonably possible that losses from zero up to the total amount of disputed invoices, totaling approximately \$1,500, could be incurred in connection with the dispute.

Table of Contents

Liquidity and Capital Resources

The Company's cash balances as of September 30, 2016 and December 31, 2015, were \$78,341 and \$78,380, respectively.

The Company intends to hold existing cash for purposes of future investment opportunities, potential return of capital to shareholders and for contingency purposes. Although revenue from publishing operations is expected to continue to decline in future periods, operating contributions expected from the Company's marketing services businesses, as well as planned adjustments for tax, pension and other cost cutting measures, are expected to be sufficient to fund operating activities and capital spending of approximately \$2,000 over the remainder of the year.

The future payment of dividends is dependent upon available cash after considering future operating and investing requirements and cannot be guaranteed. The Company discontinued stock repurchases in December 2015, and current holdings of treasury stock could be used to satisfy its obligations related to share-based awards issued to employees and directors, or can be sold on the open market.

The following discusses the changes in cash flows by operating, investing and financing activities.

Operating Cash Flows

Net cash provided by (used for) continuing operations for the nine months ended months ended September 30, 2016 and 2015, was \$6,679 and \$(8,845), respectively. Cash flows from continuing operating activities improved by \$15,524 during the nine months ended September 30, 2016, when compared to the prior year period, primarily due to changes in working capital and other operating assets and liabilities of \$10,055. In addition, the Company had improved net loss of \$4,033, when compared to the prior year period.

Investing Cash Flows

Net cash used for investing activities was \$3,840 and \$12,200 for the nine months ended September 30, 2016 and 2015, respectively. Cash flows used for investing activities include \$4,168 and \$4,546 of capital spending in 2016 and 2015, respectively. Sales proceeds of \$5,911, net of disposal costs for fixed assets, were received during 2015 related

to the Providence, Rhode Island properties. Cash outflows during 2015 also include the payment of \$14,110 related to the DMV Holdings acquisition.

Financing Cash Flows

Net cash used for financing activities was \$2,878 and \$57,422 for the nine months ended September 30, 2016 and 2015, respectively. Cash used for continuing financing activities included dividend payments of \$5,265 and \$55,450 in 2016 and 2015, respectively. Dividends paid in 2015 included a special dividend of \$2.25 per share declared and recorded in 2014, returning \$50,148 to shareholders and holders of RSUs. In 2015, the Company purchased 369,952 shares of its Series A common stock at a total cost of \$2,589 under its share repurchase program. The Company's agreement to repurchase its stock was terminated in December 2015.

Financing Arrangements

None.

Contractual Obligations

Under the applicable tax and labor laws governing pension plan funding, no contributions to the A. H. Belo Pension Plans are required in 2016.

On September 8, 2016, the Company announced a \$0.08 per share dividend to shareholders of record and holders of RSUs as of the close of business on November 10, 2016, which is payable on December 2, 2016. During the three months ended September 30, 2016, the Company recorded \$1,763 to accrue for dividends declared but not yet paid.

Additional information related to the Company's contractual obligations is available in Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 8, 2016, with the Securities and Exchange Commission ("SEC").

Table of Contents

Critical Accounting Policies and Estimates

No material changes were made to the Company's critical accounting policies as set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2015.

Forward-Looking Statements

Statements in this communication concerning A. H. Belo Corporation's business outlook or future economic performance, anticipated profitability, revenues, expenses, dividends, capital expenditures, investments, dispositions, impairments, business initiatives, acquisitions, pension plan contributions and obligations, real estate sales, working capital, future financings and other financial and non-financial items that are not historical facts, are "forward-looking statements" as the term is defined under applicable federal securities laws. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those statements. Such risks, trends and uncertainties are, in most instances, beyond the Company's control, and include changes in advertising demand and other economic conditions; consumers' tastes; newsprint prices; program costs; labor relations; technology obsolescence; as well as other risks described in the Company's Annual Report on Form 10-K and in the Company's other public disclosures and filings with the Securities and Exchange Commission. Forward-looking statements, which are as of the date of this filing, are not updated to reflect events or circumstances after the date of the statement.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in A. H. Belo Corporation's exposure to market risk from the disclosure included in the Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), the Company's Chief Executive Officer and the Company's Chief Financial Officer have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

(b) Changes in internal controls. There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II

Item 1. Legal Proceedings

A number of legal proceedings are pending against A. H. Belo. In the opinion of management, liabilities, if any, arising from these legal proceedings would not have a material adverse effect on A. H. Belo's results of operations, liquidity or financial condition.

Item 1A. Risk Factors

There were no material changes from the risk factors disclosed under the heading "Risk Factors" in Item 1A in the Annual Report on Form 10-K for the year ended December 31, 2015.

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

There were no unregistered sales of the Company's equity securities during the period covered by this report.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Table of Contents

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

24 A. H. Belo Corporation Third Quarter 2016 on Form 10-Q

Table of Contents

Item 6. Exhibits

Exhibits marked with an asterisk (*) are incorporated by reference to documents previously filed by the Company with the SEC, as indicated. In accordance with Regulation S-T, the XBRL-related information marked with a double asterisk (**) in Exhibit No. 101 to this Quarterly Report on Form 10-Q is deemed filed. All other documents are filed with this report. Exhibits marked with a tilde (~) are management contracts, compensatory plan contracts or arrangements filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

Exhibit

Number Description

- 3.1 * Amended and Restated Certificate of Incorporation of the Company (Exhibit 3.1 to Amendment No. 3 to the Company's Form 10 dated January 18, 2008 (Securities and Exchange Commission File No. 001 33741) (the "Third Amendment to Form 10"))
- 3.2 * Certificate of Designations of Series A Junior Participating Preferred Stock of the Company dated January 11, 2008 (Exhibit 3.2 to Post Effective Amendment No. 1 to Form 10 filed January 31, 2008 (Securities and Exchange Commission File No. 001 33741))
- 3.3 * Amended and Restated Bylaws of the Company, effective December 11, 2014 (Exhibit 3.1 to A. H. Belo Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2014 (Securities and Exchange Commission File No. 001-33741))
- 4.1 * Certain rights of the holders of the Company's Common Stock set forth in Exhibits 3.1 3.3 above

- 4.2 * Specimen Form of Certificate representing shares of the Company's Series A Common Stock (Exhibit 4.2 to the Third Amendment to Form 10)
- 4.3 * Specimen Form of Certificate representing shares of the Company's Series B Common Stock (Exhibit 4.3 to the Third Amendment to Form 10)
- 4.4 * Rights Agreement dated as of January 11, 2008 between the Company and Mellon Investor Services LLC (Exhibit 4.4 to the Third Amendment to Form 10)
- 10.2 * Compensatory plans and arrangements:
 - ~(1) * A. H. Belo Savings Plan as Amended and Restated Effective January 1, 2015 (Exhibit 10.2(1) to the Company's Annual Report on Form 10 K filed with the Securities and Exchange Commission on March 6, 2015 (Securities and Exchange Commission File No. 001 33741)) (First Amendment to the A. H. Belo Savings Plan effective January 1, 2016) (Second Amendment to the A. H. Belo Savings Plan effective September 8, 2016)
 - ~(2) * A. H. Belo Corporation 2008 Incentive Compensation Plan (Exhibit 10.5 to the February 12, 2008 Form 8-K)

- * ~~(F)~~irst Amendment to A. H. Belo 2008 Incentive Compensation Plan effective July 23, 2008 (Exhibit 10.2(2)(a) to the Company's Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on August 14, 2008 (Securities and Exchange Commission File No. 001 33741))
- * ~~(F)~~orm of A. H. Belo 2008 Incentive Compensation Plan Non Employee Director Evidence of Grant (for Non Employee Director Awards) (Exhibit 10.2(2)(b) to the Company's Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on May 13, 2010 (Securities and Exchange Commission File No. 001 33741) (the "1st Quarter 2010 Form 10 Q"))
- * ~~(F)~~orm of A. H. Belo 2008 Incentive Compensation Plan Evidence of Grant (for Employee Awards) (Exhibit 10.2(2)(c) to the 1st Quarter 2010 Form 10 Q)
- * ~~(F)~~orm of A. H. Belo 2008 Incentive

Compensation Plan
Evidence of Grant
(Exhibit 10.1 to
A. H. Belo
Corporation's
Current Report on
Form 8 K filed with
the Securities and
Exchange
Commission on
March 12, 2012
(Securities and
Exchange
Commission File
No. 001 33741) (the
"March 12, 2012
Form 8-K"))

* (Form of A. H. Belo
Cash Long Term
Incentive Evidence
of Grant
(Exhibit 10.2 to the
March 12, 2012
Form 8-K)

Table of Contents

Exhibit

Number Description

- ~(3) * A. H. Belo Pension Transition Supplement Restoration Plan effective January 1, 2008 (Exhibit 10.6 to the February 12, 2008 Form 8 K)
 - * ~~F~~irst Amendment to the A. H. Belo Pension Transition Supplement Restoration Plan dated March 31, 2009 (Exhibit 10.4 to the April 2, 2009 Form 8 K)
 - * ~~S~~econd Amendment to the A. H. Belo Pension Transition Supplement Restoration Plan dated July 29, 2016 (Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 2, 2016 (Securities and Exchange Commission File No. 001 33741))
- ~(4) * A. H. Belo Corporation Change In Control Severance Plan (Exhibit 10.7 to the February 12, 2008 Form 8 K)
 - * ~~A~~mmendment to the A. H. Belo Change in Control Severance Plan dated March 31, 2009 (Exhibit 10.3 to the April 2, 2009 Form 8 K)
- ~(5) * Robert W. Decherd Compensation Arrangements dated June 19, 2013 (Exhibit 10.1 to the June 19, 2013 Form 8-K)
- 10.3 Agreements relating to the separation of A. H. Belo Corporation from its former parent company:
 - (1) * Pension Plan Transfer Agreement by and between Belo Corp. and A. H. Belo Corporation dated as of October 6, 2010 (Exhibit 10.1 to the Company's Current Report on Form 8 K filed with the Securities and Exchange Commission (October 8, 2010 Form 8-K))
 - (2) * Agreement among the Company, Belo Corp., and The Pension Benefit Guaranty Corporation, effective March 9, 2011 (Exhibit 10.3(6) to the Company's Annual Report on Form 10 K filed with the Securities and Exchange Commission on March 11, 2011 (Securities and Exchange Commission File No. 001 33741))
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
- 101.INS ~~X~~BRL Instance Document
- 101.SCH ~~X~~BRL Taxonomy Extension Schema
- 101.CAL ~~X~~BRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF ~~X~~BRL Taxonomy Extension Definition Linkbase Document
- 101.LAB ~~X~~BRL Taxonomy Extension Label Linkbase Document
- 101.PRE ~~X~~BRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

11/1/2016

A. H. BELO CORPORATION

By: /s/ Katy Murray
Katy Murray
Senior Vice President/Chief Financial Officer
(Principal Financial Officer)

Dated: November 1, 2016

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	** XBRL Instance Document
101.SCH	** XBRL Taxonomy Extension Schema
101.CAL	** XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	** XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	** XBRL Taxonomy Extension Label Linkbase Document
101.PRE	** XBRL Taxonomy Extension Presentation Linkbase Document

In accordance with Regulation S-T, the XBRL-related information marked with a double asterisk (**) in Exhibit No. 101 to this Quarterly Report on Form 10-Q is deemed filed.