A. H. Belo Corp
Form 10-Q
August 01, 2017
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: June 30, 2017

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	38-3765318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 27, 2017
Common Stock, $.01 par value	21,753,166

Total Common Stock consists of 19,280,601 shares of Series A Common Stock and 2,472,565 shares of Series B Common Stock.

Table of Contents

A. H. BELO CORPORATION

FORM 10-Q

TABLE OF CONTENTS

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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net Operating Revenue:				
Advertising and marketing services	$ 36,022	$ 38,040	$ 71,226	$ 73,277
Circulation	19,088	19,821	38,254	40,173
Printing, distribution and other	7,979	8,765	14,510	15,659
Total net operating revenue	63,089	66,626	123,990	129,109
Operating Costs and Expense:				
Employee compensation and benefits	24,853	24,774	52,728	51,791
Other production, distribution and operating costs	29,736	29,898	58,062	58,229
Newsprint, ink and other supplies	5,993	6,461	11,894	12,519
Depreciation	2,727	2,605	5,233	5,237
Amortization	199	229	399	455
Goodwill impairment	—	—	228	—
Total operating costs and expense	63,508	63,967	128,544	128,231
Operating income (loss)	(419)	2,659	(4,554)	878
Other income (expense), net	(93)	408	(430)	487
Income (Loss) from Continuing Operations Before Income Taxes	(512)	3,067	(4,984)	1,365
Income tax provision	293	2,393	251	1,284
Net Income (Loss)	(805)	674	(5,235)	81
Net income (loss) attributable to noncontrolling interests	—	(19)	—	20
Net Income (Loss) Attributable to A. H. Belo Corporation	$ (805)	$ 693	$ (5,235)	$ 61
Per Share Basis				
Net income (loss) attributable to A. H. Belo Corporation				
Basic and diluted	$ (0.04)	$ 0.03	$ (0.24)	$ 0.00

Number of common shares used in the per share calculation:				
Basic	21,743,390	21,614,260	21,717,032	21,564,200
Diluted	21,743,390	21,762,559	21,717,032	21,724,876

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands (unaudited)	2017	2016	2017	2016
Net Income (Loss)	$ (805)	$ 674	$ (5,235)	$ 81
Other Comprehensive Income (Loss):				
Amortization of actuarial (gains) losses, net of tax	56	(24)	113	(32)
Total other comprehensive income (loss)	56	(24)	113	(32)
Comprehensive Income (Loss)	(749)	650	(5,122)	49
Comprehensive income (loss) attributable to noncontrolling interests	—	(19)	—	20
Total Comprehensive Income (Loss) Attributable to A. H. Belo Corporation	$ (749)	$ 669	$ (5,122)	$ 29

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)	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 64,856	$ 80,071
Accounts receivable (net of allowance of $942 and $1,115 at June 30, 2017 and December 31, 2016, respectively)	23,960	29,114
Inventories	3,071	3,386
Prepaids and other current assets	10,789	9,553
Assets held for sale	8,740	—
Total current assets	111,416	122,124
Property, plant and equipment, at cost	441,024	445,874
Less accumulated depreciation	(407,493)	(402,115)
Property, plant and equipment, net	33,531	43,759
Intangible assets, net	4,473	4,872
Goodwill	13,973	14,201
Other assets	6,888	7,775
Total assets	$ 170,281	$ 192,731
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 8,411	$ 9,036
Accrued compensation and benefits	8,479	8,657
Other accrued expense	4,440	6,318
Advance subscription payments	12,832	13,243
Total current liabilities	34,162	37,254
Long-term pension liabilities	52,989	54,843
Other post-employment benefits	2,321	2,329
Other liabilities	6,456	6,483
Total liabilities	95,928	100,909
Noncontrolling interest - redeemable	—	2,670
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 20,697,482 and 20,620,461 shares at June 30, 2017 and December 31, 2016, respectively	208	207
Series B: issued 2,472,565 and 2,472,680 shares at June 30, 2017 and December 31, 2016, respectively	24	24

Treasury stock, Series A, at cost; 1,416,881 shares held at June 30, 2017 and December 31, 2016	(11,233)	(11,233)
Additional paid-in capital	494,671	499,552
Accumulated other comprehensive loss	(39,195)	(39,308)
Accumulated deficit	(370,122)	(361,324)
Total shareholders' equity attributable to A. H. Belo Corporation	74,353	87,918
Noncontrolling interests	—	1,234
Total shareholders' equity	74,353	89,152
Total liabilities and shareholders' equity	$ 170,281	$ 192,731

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

	Common Stock				Treasury Stock					
In thousands, except share amounts (unaudited)	Shares Series A	Shares Series B	Amount	Additional Paid-in Capital	Shares Series A	Amount	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrol Interests	T
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	$
Net income	—	—	—	—	—	—	—	61	7	
Other comprehensive loss	—	—	—	—	—	—	(32)	—	—	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(165)	
Capital contributions of 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	—	—	—	—	—	
Share-based compensation	—	—	—	448	—	—	—	—	—	
Conversion of Series B to Series A	649	(649)	—	—	—	—	—	—	—	
Dividends	—	—	—	—	—	—	—	(5,265)	—	
Balance at June 30, 2016	20,620,355	2,472,786	$ 231	$ 500,655	(1,416,881)	$ (11,233)	$ (38,474)	$ (338,426)	$ 1,307	$
Balance at December 31, 2016	20,620,461	2,472,680	$ 231	$ 499,552	(1,416,881)	$ (11,233)	$ (39,308)	$ (361,324)	$ 1,234	$
Net loss	—	—	—	—	—	—	—	(5,235)	—	
Other comprehensive income	—	—	—	—	—	—	113	—	—	
Distributions to noncontrolling interests	—	—	—	—	—	—		—	(118)	

Issuance of shares for restricted stock units	76,906	—	1	(1)	—	—	—	—	—	
Share-based compensation	—	—	—	626	—	—	—	—	—	
Purchases of noncontrolling interests	—	—	—	(5,506)	—	—	—	—	(1,116)	
Conversion of Series B to Series A	115	(115)	—	—	—	—	—	—	—	
Dividends	—	—	—	—	—	—	—	(3,563)	—	
Balance at June 30, 2017	20,697,482	2,472,565	$ 232	$ 494,671	(1,416,881)	$ (11,233)	$ (39,195)	$ (370,122)	$ —	$

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)	Six Months Ended June 30, 2017	2016
Operating Activities		
Net income (loss)	$ (5,235)	$ 81
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,632	5,692
Net periodic pension and other post-employment benefit	(1,717)	(1,749)
Share-based compensation	626	448
Deferred income taxes	—	9
Loss on investment related activity	250	—
Gain on disposal of fixed assets	—	(325)
Goodwill impairment	228	—
Changes in working capital and other operating assets and liabilities, net of acquisitions:		
Accounts receivable	5,154	6,041
Inventories, prepaids and other current assets	(921)	(2,006)
Other assets	637	443
Accounts payable	(625)	(748)
Compensation and benefit obligations	(175)	847
Other accrued expenses	(890)	(518)
Advance subscription payments	(411)	101
Other post-employment benefits	(31)	(93)
Net cash provided by operating activities	2,522	8,223
Investing Activities		
Purchases of assets	(4,789)	(3,174)
Net cash used for investing activities	(4,789)	(3,174)
Financing Activities		
Purchases of noncontrolling interests	(9,231)	—
Dividends paid	(3,538)	(3,503)
Proceeds from other financing activities	—	2,566
Distributions to noncontrolling interests	(179)	(264)
Proceeds from exercise of stock options	—	156
Net cash used for financing activities	(12,948)	(1,045)
Net increase (decrease) in cash and cash equivalents	(15,215)	4,004
Cash and cash equivalents, beginning of period	80,071	78,380

Cash and cash equivalents, end of period	$ 64,856	$ 82,384
Supplemental Disclosures		
Income tax paid, net (refund)	$ 1,163	$ 1,289
Noncash investing and financing activities:		
Investments in property, plant and equipment payable	160	—
Dividends payable	1,788	—

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 DMV Digital Holdings Company (“DMV Holdings”) and Your Speakeasy, LLC (“Speakeasy”), and provides event activation, 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. 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, 2016. All dollar amounts presented herein, except share and per share amounts, are in thousands, unless the context indicates 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.

New Accounting Pronouncements. The Financial Accounting Standards Board (“FASB”) 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 Accounting Standards Update ("ASU") 2014-09 – Revenue from Contracts with Customers (Topic 606). This guidance prescribes a single comprehensive model for entities to use in the accounting of revenue arising from contracts with customers. The core principle contemplated by this new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. Since May 2014, the FASB issued clarifying updates to the new standard specifically to address certain core principles including the identification of performance obligations, licensing guidance, the assessment of the collectability criterion, the presentation of taxes collected from customers, noncash considerations, contract modifications, and completed contracts at transition. The new guidance will supersede virtually all existing revenue guidance under GAAP and is effective for fiscal years beginning after December 31, 2017. There are two transition options available to entities, the full retrospective approach, in which the Company would restate prior periods, or the modified retrospective approach. The Company currently anticipates adopting ASU 2014-09 using the modified retrospective approach as of January 1, 2018. This approach consists of recognizing the cumulative effect of initially applying the standard as an adjustment to opening retained earnings.

The Company coordinated a team of key stakeholders to develop a bottom-up approach to analyze the impact of the new standard on its portfolio of contracts. Based upon the Company's initial evaluation, some of the issues currently being reviewed include the impact of gross versus net, level of disaggregation of revenue disclosed in the Company's financial statements and evaluating the standalone selling price related to certain performance obligations. The Company is currently quantifying the impact that the updated guidance will have on the Company's financial statements and related disclosures.

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 and will be applied retrospectively. 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 January 2017, the FASB issued ASU 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This update simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The guidance will be effective for fiscal years beginning after December 15, 2019, 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 February 2017, the FASB issued ASU 2017-06 – Plan Accounting – Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962) and Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting. This update clarifies the presentation requirements for a plan's interest in a master trust and requires more detailed disclosures of the plan's interest in the master trust. 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 2017, the FASB issued ASU 2017-07 – Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This update clarifies the presentation and classification of the components of net periodic benefit costs in the Consolidated Statement of Operations. The guidance will be effective for fiscal years beginning after December 15, 2017, 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

In the first quarter of 2017, in conjunction with the promotion of Grant Moise from Senior Vice President Business Development / Niche Products to General Manager of The Dallas Morning News and Executive Vice President of A. H. Belo, the Company reorganized its two reportable segments based on changes in reporting structure and the go-to-market for the Company's service and product offerings. The two reportable segments are Publishing and Marketing Services.

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

The Marketing Services segment includes the operations of DMV Holdings, Speakeasy and digital advertising through Connect (programmatic advertising). The Company operates the portfolio of assets within its Marketing Services segment as separate businesses that sell digital marketing and advertising through different channels, including programmatic advertising and content marketing within the social media environment.

Based on the organization of the Company's structure and organizational chart, we believe the Company's chief operating decision makers (the "CODMs") are its Chief Executive Officer, Jim Moroney, and Grant Moise, the General Manager of The Dallas Morning News and Executive Vice President of A. H Belo Corporation. The CODMs allocate resources and capital to the Publishing and Marketing Services segments at the segment level.

Table of Contents

The following tables show summarized financial information for the Company's reportable segments. Due to the first quarter 2017 reorganization of the Company's two reportable segments, the prior year periods financial information by segment were recast for comparative purposes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016 (Recast)	2017	2016 (Recast)
Revenue				
Publishing	$ 54,822	$ 60,575	$ 108,313	$ 117,080
Marketing Services	8,267	6,051	15,677	12,029
Total	$ 63,089	$ 66,626	$ 123,990	$ 129,109
Operating Income (Loss)				
Publishing	$ (1,208)	$ 1,678	$ (5,933)	$ (802)
Marketing Services	789	981	1,379	1,680
Total	$ (419)	$ 2,659	$ (4,554)	$ 878
Noncash Expenses				
Publishing				
Depreciation	$ 2,706	$ 2,587	$ 5,197	$ 5,198
Amortization	—	26	—	52
Goodwill impairment	—	—	228	—
Total	$ 2,706	$ 2,613	$ 5,425	$ 5,250
Marketing Services				
Depreciation	$ 21	$ 18	$ 36	$ 39
Amortization	199	203	399	403
Total	$ 220	$ 221	$ 435	$ 442

	June 30, 2017	December 31, 2016 (Recast)
Total Assets		
Publishing	$ 147,495	$ 170,820
Marketing Services	22,786	21,911

Total	$ 170,281	$ 192,731

Note 3: Acquisitions

On February 16, 2017, the Company acquired the remaining 30 percent voting interest in Speakeasy for a cash purchase price of $2,111, and on March 2, 2017, the Company acquired the remaining 20 percent voting interest in DMV Holdings for a cash purchase price of $7,120.

The initial purchase of 80 percent voting interest in DMV Holdings occurred in January 2015 for a cash purchase price of $14,110. DMV Digital Holdings Company holds all outstanding ownership interests of three Dallas-based businesses, Distribion, Inc., Vertical Nerve, Inc. and CDFX, LLC. These businesses specialize in local marketing automation, search engine marketing, and direct mail and promotional products, respectively.

These acquisitions complement 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.

Pro-rata distributions. In connection with the 2015 acquisition of 80 percent voting interest in DMV Holdings, the shareholder agreement provided for a pro-rata distribution of 50 percent and 100 percent of DMV Holdings' free cash flow for fiscal years 2016 and 2015, 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 six months ended June 30, 2017 and 2016, the Company recorded pro-rata distributions to noncontrolling interests of $163 and $264, respectively, in connection with this agreement based on 2016 and 2015 free cash flow as defined, respectively.

Table of Contents

Redeemable noncontrolling interest. Also, in connection with the 2015 acquisition of 80 percent voting interest in DMV Holdings, the Company entered into a shareholder agreement which provided for a put option to a noncontrolling shareholder. The put option provided 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.

Redeemable noncontrolling interest was recorded at fair value on the acquisition date and the carrying value was adjusted each period for its share of the earnings related to DMV Holdings and for any distributions. The carrying value was also adjusted for the change in fair value, which was based on the estimated redemption value as of December 31, 2016. Adjustments were recorded to retained earnings or additional paid in capital, as applicable, and have no effect to earnings of the Company. During the six months ended June 30, 2017 and 2016, redeemable noncontrolling interest was decreased by $61 and $99, respectively, for distributions related to the 2016 and 2015 free cash flow, respectively, as required under the shareholder agreement.

The exercisability of the noncontrolling interest put option was outside the control of the Company. As such, the redeemable noncontrolling interest of $2,670 was reported in the mezzanine equity section of the Consolidated Balance Sheet as of December 31, 2016. As a result of the purchase of the remaining 20 percent voting interest in DMV Holdings, the shareholder agreement was terminated and the redeemable noncontrolling interest was eliminated as of March 31, 2017.

Note 4: Goodwill and Intangible Assets

The following table shows goodwill and other intangible assets by reportable segment as of June 30, 2017 and December 31, 2016. Due to the first quarter 2017 reorganization of the Company’s two reportable segments, the prior year period financial information by segment was recast for comparative purposes.

	June 30, 2017	December 31, 2016 (Recast)
Goodwill		
Publishing	$ —	$ 228
Marketing Services	13,973	13,973

Total	$ 13,973	$ 14,201
Intangible Assets		
Publishing		
Cost	$ —	$ 240
Accumulated Amortization	—	(240)
Net Carrying Value	$ —	$ —
Marketing Services		
Cost	$ 6,470	$ 6,470
Accumulated Amortization	(1,997)	(1,598)
Net Carrying Value	$ 4,473	$ 4,872

In the six months ended June 30, 2017, the Publishing segment's fully amortized intangible assets of $240 of customer relationships were written-off and had no remaining useful life. Intangible assets consist of $4,950 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 $199 and $399 for the three and six months ended June 30, 2017, respectively, and $229 and $455 for the three and six months ended June 30, 2016, respectively.

Certain goodwill and intangible assets previously reported in the Marketing Services segment were moved to the Publishing segment as a result of the first quarter 2017 segment reorganization. The Publishing reporting unit's goodwill was determined to be fully impaired as of December 31, 2016. Therefore, the Company recorded a noncash goodwill impairment charge of $228 in the first quarter of 2017.

The Company tested goodwill for impairment as of December 31, 2016 at the reporting unit level using a discounted cash flow methodology with a peer-based, risk-adjusted weighted average cost of capital, combined with a market approach using peer-based earnings multiples. The Company believes the use of a discounted cash flow approach, combined with the market approach, is the most reliable indicator of the estimated fair values of the businesses.

Table of Contents

Because the Company’s annual test indicated that the Publishing reporting unit’s carrying value exceeded its estimated fair value, a second phase of the goodwill impairment test (“Step 2”) was performed specific to the Publishing reporting unit. Under Step 2, the fair value of the Publishing reporting unit’s assets and liabilities were estimated, including intangible assets, for the purpose of deriving an estimate of the implied fair value of goodwill. The implied fair value of goodwill was then compared to the recorded goodwill to determine the amount of the impairment.

Upon completion of the annual test, the Publishing reporting unit’s goodwill was determined to be impaired, and the Company recorded a noncash goodwill impairment charge of $22,682 in the fourth quarter of 2016, fully impairing the Publishing reporting unit’s goodwill.

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 and Series B 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. Due to the expiration of the Plan on February 8, 2018, A. H. Belo implemented, and shareholders approved, a new long-term incentive plan (the “2017 Plan”) under which 8,000,000 shares of the Company’s Series A and Series B common stock are authorized for equity-based awards. Like its predecessor plan, awards under the 2017 Plan 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, RSUs, performance shares, performance units or stock appreciation rights. No grants have yet been made under the 2017 Plan.

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 June 30, 2017.

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2016	114,979	$ 8.21

Canceled	(14,635)	20.16
Outstanding at June 30, 2017	100,344	6.46

As of June 30, 2017, the aggregate intrinsic value of outstanding options was $10 and the weighted average remaining contractual life of the Company's stock options was 1.1 years. The aggregate intrinsic value of options exercised in the three and six months ended June 30, 2016, was $183 and $300, respectively.

Restricted Stock Units. The Company's RSUs have service and/or performance conditions 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 up to three years. As of June 30, 2017, the liability for the portion of the awards to be redeemed in cash was $771. 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, 2016	121,131				$ 5.65
Granted	284,868				6.11
Vested and outstanding	(159,212)				5.71
Vested and issued	(22,734)	13,634	9,100	$ 57	6.90
Non-vested at June 30, 2017	224,053				6.07

For the six months ended June 30, 2017, the Company issued 63,272 shares of Series A common stock and 42,189 shares were redeemed in cash for RSUs that were previously vested as of December 31, 2016. In addition, there were 290,825 and 237,074 RSUs that were vested and outstanding as of June 30, 2017 and December 31, 2016, respectively.

Table of Contents

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 June 30, 2017, unrecognized compensation expense related to non-vested RSUs totaled $1,018, which is expected to be recognized over a weighted average period of approximately 1.0 year.

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 June 30,			
2017	$ 185	$ 38	$ 223
2016	76	69	145
Six Months Ended June 30,			
2017	$ 626	$ 317	$ 943
2016	448	301	749

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 from continuing operations of $293 and $2,393 for the three months ended June 30, 2017 and 2016, respectively, and $251 and $1,284 for the six months ended June 30, 2017 and 2016, respectively. Effective income tax rates from continuing operations were (5.0) percent and 94.1 percent for the six months ended June 30, 2017 and 2016, respectively. The effective income tax rate for the six months ended June 30, 2017, was due to the federal tax benefit fully reserved with a valuation allowance and the effect of the Texas margin tax. The 2017 effective income tax rate was lower when compared to the prior year period due to taxable income generated from operations and the disposition of certain fixed assets in 2016.

Note 7: Pension and Other Retirement Plans

Defined Benefit Plans. The Company sponsors the A. H. Belo Pension Plans (the "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 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 2017 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest cost	$ 2,386	$ 2,524	$ 4,772	$ 5,049
Expected return on plans' assets	(3,314)	(3,397)	(6,627)	(6,793)
Amortization of actuarial loss	74	20	149	31
Net periodic pension benefit	$ (854)	$ (853)	$ (1,706)	$ (1,713)

Table of Contents

Defined Contribution Plans. The A. H. Belo Savings Plan (the "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 Savings 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 June 30, 2017 and 2016, the Company recorded expense of $231 and $222, respectively, and during the six months ended June 30, 2017 and 2016, the Company recorded expense of $495 and $501, respectively, for matching contributions to the Savings Plan.

Note 8: Shareholders' Equity

Dividends. On May 10, 2017, the Company's board of directors declared an $0.08 per share dividend to shareholders of record and holders of RSUs as of the close of business on August 11, 2017, which is payable on September 1, 2017. During the three months ended June 30, 2017, the Company recorded $1,788 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 Pension Plans' amendments and other actuarial experience attributable to other post-employment benefit ("OPEB") 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 the Pension Plans' participants. Gains and losses associated with the Company's OPEB plans are amortized over the average remaining service period of active OPEB plans' participants. Net deferred tax assets associated with the accumulated other comprehensive loss are fully reserved.

The table 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 June 30,					
	2017			2016		
	Total	Defined benefit	Other post-	Total	Defined benefit	Other post-

		pension plans	employment benefit plans		pension plans	employment benefit plans
Balance, beginning of period	$ (39,251)	$ (39,662)	$ 411	$ (38,450)	$ (38,887)	$ 437
Amortization	56	74	(18)	(24)	20	(44)
Balance, end of period	$ (39,195)	$ (39,588)	$ 393	$ (38,474)	$ (38,867)	$ 393

	Six Months Ended June 30,					
	2017			2016		
	Total	Defined benefit pension plans	Other post-employment benefit plans	Total	Defined benefit pension plans	Other post-employment benefit plans
Balance, beginning of period	$ (39,308)	$ (39,737)	$ 429	$ (38,442)	$ (38,898)	$ 456
Amortization	113	149	(36)	(32)	31	(63)
Balance, end of period	$ (39,195)	$ (39,588)	$ 393	$ (38,474)	$ (38,867)	$ 393

Table of Contents

Note 9: Earnings Per Share

The table below sets forth the reconciliations for net income (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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Earnings (Numerator)				
Net income (loss) attributable to A. H. Belo Corporation	$ (805)	$ 693	$ (5,235)	$ 61
Less: Dividends to participating securities	43	28	82	54
Net income (loss) available to common shareholders from continuing operations	$ (848)	$ 665	$ (5,317)	$ 7
Shares (Denominator)				
Weighted average common shares outstanding (basic)	21,743,390	21,614,260	21,717,032	21,564,200
Effect of dilutive securities	—	148,299	—	160,676
Adjusted weighted average shares outstanding (diluted)	21,743,390	21,762,559	21,717,032	21,724,876
Earnings Per Share from Continuing Operations				
Basic and diluted	$ (0.04)	$ 0.03	$ (0.24)	$ 0.00

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 615,222 and 499,726 options and RSUs outstanding as of June 30, 2017 and 2016, 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 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 was previously 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. In the second quarter of 2017, the Company and the customer entered into an amended printing services agreement extending the term of the agreement for an additional seven years, established pricing terms for the extended term and resolved the disputed invoices with no losses incurred by the Company.

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.

Note 11: 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 second quarter of 2017, the Company announced that three parcels of land located in downtown Dallas, Texas are available for sale. These assets, with a total carrying value of $8,740, are reported as assets held for sale as of June 30, 2017.

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 share and 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 delivers news and information in innovative ways to a broad spectrum of audiences with diverse interests and lifestyles.

In the first quarter of 2017, in conjunction with the promotion of Grant Moise from Senior Vice President Business Development / Niche Products to General Manager of The Dallas Morning News and Executive Vice President of A. H. Belo, the Company reorganized its two reportable segments based on changes in reporting structure and the go-to-market for the Company's service and product offerings. The two reportable segments are Publishing and Marketing Services.

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. These operations generate revenue from sales of advertising within its newspaper and digital platforms, subscription and retail sales of its newspapers, sponsorship advertising for events, commercial printing and distribution services, primarily related to national and regional newspapers, and preprint advertisers. Businesses within the Publishing segment leverage the production facilities, subscriber and advertiser base, and digital news platforms to provide additional contribution margin.

The Marketing Services segment includes marketing services generated by DMV Digital Holdings Company ("DMV Holdings") and its subsidiaries Distribion, Inc., Vertical Nerve, Inc. and CDFX, LLC ("MarketingFX"). The Marketing Services segment also includes Your Speakeasy, LLC ("Speakeasy") and digital advertising through Connect (programmatic advertising). The Company operates the portfolio of assets within its Marketing Services segment as separate businesses that sell digital marketing and advertising through different channels, including programmatic advertising and content marketing within the social media environment.

On February 16, 2017, the Company acquired the remaining 30 percent voting interest in Speakeasy for a cash purchase price of $2,111, and on March 2, 2017, the Company acquired the remaining 20 percent voting interest in DMV Holdings for a cash purchase price of $7,120.

The initial purchase of 80 percent voting interest in DMV Holdings occurred in January 2015 for a cash purchase price of $14,110. DMV Holdings holds all outstanding ownership interests of three Dallas-based companies, Distribion, Inc., Vertical Nerve, Inc. and MarketingFX. These businesses specialize in local marketing automation, search engine marketing, and direct mail and promotional products, respectively.

These acquisitions complement 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.

Table of Contents

RESULTS OF CONTINUING OPERATIONS

Consolidated Results of Continuing Operations

This section contains discussion and analysis of net operating revenue, expense and other information relevant to an understanding of results of operations for the three and six months ended June 30, 2017 and 2016. Due to the first quarter 2017 reorganization of the Company's two reportable segments, the prior year periods financial information by segment were recast for comparative purposes.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	Percentage Change		2016 (Recast)	2017	Percentage Change		2016 (Recast)
Publishing								
Advertising and marketing services	$ 27,755	(13.2)	%	$ 31,989	$ 55,549	(9.3)	%	$ 61,248
Circulation	19,088	(3.7)	%	19,821	38,254	(4.8)	%	40,173
Printing, distribution and other	7,979	(9.0)	%	8,765	14,510	(7.3)	%	15,659
Total Net Operating Revenue	54,822	(9.5)	%	60,575	108,313	(7.5)	%	117,080
Total Operating Costs and Expense	56,030	(4.9)	%	58,897	114,246	(3.1)	%	117,882
Operating Income (Loss)	$ (1,208)	(172.0)	%	$ 1,678	$ (5,933)	(639.8)	%	$ (802)
Marketing Services								
Advertising and marketing services	$ 8,267	36.6	%	$ 6,051	$ 15,677	30.3	%	$ 12,029
Total Net Operating Revenue	8,267	36.6	%	6,051	15,677	30.3	%	12,029
Total Operating Costs and Expense	7,478	47.5	%	5,070	14,298			