A. H. Belo Corp
Form 10-Q
October 31, 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: September 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 October 26, 2017
Common Stock, $.01 par value	21,753,166

Total Common Stock consists of 19,281,011 shares of Series A Common Stock and 2,472,155 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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net Operating Revenue:				
Advertising and marketing services	$ 34,875	$ 38,304	$ 106,101	$ 111,581
Circulation	18,845	19,633	57,099	59,806
Printing, distribution and other	6,839	6,843	21,349	22,502
Total net operating revenue	60,559	64,780	184,549	193,889
Operating Costs and Expense:				
Employee compensation and benefits	29,693	25,626	82,421	77,417
Other production, distribution and operating costs	27,460	30,615	85,522	88,844
Newsprint, ink and other supplies	5,648	6,315	17,542	18,834
Depreciation	2,607	2,488	7,840	7,725
Amortization	200	225	599	680
Goodwill impairment	—	—	228	—
Total operating costs and expense	65,608	65,269	194,152	193,500
Operating income (loss)	(5,049)	(489)	(9,603)	389
Other income, net	7,639	114	7,209	601
Income (Loss) from Continuing Operations Before Income Taxes	2,590	(375)	(2,394)	990
Income tax provision	10	77	261	1,361
Net Income (Loss)	2,580	(452)	(2,655)	(371)
Net income attributable to noncontrolling interests	—	45	—	65
Net Income (Loss) Attributable to A. H. Belo Corporation	$ 2,580	$ (497)	$ (2,655)	$ (436)

Per Share Basis

Net income (loss) attributable to A. H. Belo Corporation				
Basic and diluted	$ 0.12	$ (0.02)	$ (0.13)	$ (0.02)
Number of common shares used in the per share calculation:				
Basic	21,753,166	21,676,260	21,729,212	21,601,828
Diluted	21,754,627	21,676,260	21,729,212	21,601,828

See the accompanying Notes to the Consolidated Financial Statements.

Table of Contents

A. H. Belo Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

In thousands (unaudited)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net Income (Loss)	$ 2,580	$ (452)	$ (2,655)	$ (371)
Other Comprehensive Income (Loss), Net of Tax:				
Actuarial gains	3,648	—	3,648	—
Amortization of actuarial (gains) losses	5,967	(17)	6,080	(49)
Total other comprehensive income (loss)	9,615	(17)	9,728	(49)
Comprehensive Income (Loss)	12,195	(469)	7,073	(420)
Comprehensive income attributable to noncontrolling interests	—	45	—	65
Total Comprehensive Income (Loss) Attributable to A. H. Belo Corporation	$ 12,195	$ (514)	$ 7,073	$ (485)

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, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 49,955	$ 80,071
Accounts receivable (net of allowance of $937 and $1,115 at September 30, 2017 and December 31, 2016, respectively)	25,914	29,114
Inventories	3,417	3,386
Prepaids and other current assets	10,185	9,553
Assets held for sale	5,510	—
Total current assets	94,981	122,124
Property, plant and equipment, at cost	440,432	445,874
Less accumulated depreciation	(406,841)	(402,115)
Property, plant and equipment, net	33,591	43,759
Intangible assets, net	4,273	4,872
Goodwill	13,973	14,201
Other assets	6,975	7,775
Total assets	$ 153,793	$ 192,731
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 9,121	$ 9,036
Accrued compensation and benefits	7,641	8,657
Other accrued expense	5,395	6,318
Advance subscription payments	12,179	13,243
Total current liabilities	34,336	37,254
Long-term pension liabilities	28,413	54,843
Other post-employment benefits	2,189	2,329
Other liabilities	3,919	6,483
Total liabilities	68,857	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 20,697,892 and 20,620,461 shares at September 30, 2017 and December 31, 2016, respectively	208	207

Series B: issued 2,472,155 and 2,472,680 shares at September 30, 2017		
and December 31, 2016, respectively	24	24
Treasury stock, Series A, at cost; 1,416,881 shares held at September 30, 2017		
and December 31, 2016	(11,233)	(11,233)
Additional paid-in capital	494,820	499,552
Accumulated other comprehensive loss	(29,580)	(39,308)
Accumulated deficit	(369,303)	(361,324)
Total shareholders’ equity attributable to A. H. Belo Corporation	84,936	87,918
Noncontrolling interests	—	1,234
Total shareholders’ equity	84,936	89,152
Total liabilities and shareholders’ equity	$ 153,793	$ 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 (loss)	—	—	—	—	—	—	—	(436)	52	
Other comprehensive loss	—	—	—	—	—	—	(49)	—	—	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(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	—	—	—	—	—	
Share-based compensation	—	—	—	534	—	—	—	—	—	
Conversion of Series B to Series A	739	(739)	—	—	—	—	—	—	—	
Dividends	—	—	—	—	—	—	—	(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	$
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	—	—	—	—	—	—	—	(2,655)	—	
Other comprehensive income	—	—	—	—	—	—	9,728	—	—	
Distributions to noncontrolling interests	—	—	—	—	—	—		—	(118)	

Issuance of shares for restricted stock units	76,906	—	1	(1)	—	—	—	—	—	
Share-based compensation	—	—	—	775	—	—	—	—	—	
Purchases of noncontrolling interests	—	—	—	(5,506)	—	—	—	—	(1,116)	
Conversion of Series B to Series A	525	(525)	—	—	—	—	—	—	—	
Dividends	—	—	—	—	—	—	—	(5,324)	—	
Balance at September 30, 2017	20,697,892	2,472,155	$ 232	$ 494,820	(1,416,881)	$ (11,233)	$ (29,580)	$ (369,303)	$ —	$

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, 2017	2016
Operating Activities		
Net loss	$ (2,655)	$ (371)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	8,439	8,405
Net periodic benefit and contributions related to employee benefit plans	(16,667)	(2,626)
Share-based compensation	775	534
Deferred income taxes	—	13
Loss on investment related activity	250	200
Gain on disposal of fixed assets	(7,118)	(328)
Goodwill impairment	228	—
Changes in working capital and other operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,200	4,752
Inventories, prepaids and other current assets	(663)	76
Other assets	568	(582)
Accounts payable	85	(1,898)
Compensation and benefit obligations	(932)	1,740
Other accrued expenses	(62)	(1,926)
Advance subscription payments	(1,064)	(1,213)
Other post-employment benefits	(174)	(97)
Net cash provided by (used for) operating activities	(15,790)	6,679
Investing Activities		
Purchases of assets	(7,837)	(4,168)
Sales of assets	8,252	328
Purchases of investments	(18)	—
Net cash provided by (used for) investing activities	397	(3,840)
Financing Activities		
Purchases of noncontrolling interests	(9,231)	—
Dividends paid	(5,313)	(5,265)
Proceeds from other financing activities	—	2,566
Distributions to noncontrolling interests	(179)	(335)
Proceeds from exercise of stock options	—	156
Net cash used for financing activities	(14,723)	(2,878)

Net decrease in cash and cash equivalents	(30,116)	(39)
Cash and cash equivalents, beginning of period	80,071	78,380
Cash and cash equivalents, end of period	$ 49,955	$ 78,341
Supplemental Disclosures		
Income tax paid, net of refunds	$ 1,200	$ 1,623
Noncash investing and financing activities:		
Investments in property, plant and equipment payable	228	603
Dividends payable	1,775	1,763

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.

Recently Adopted Accounting Pronouncements.

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. In the three months ended September 30, 2017, the Company early adopted this standard. The adoption of this standard did not materially impact the Company’s consolidated financial statements.

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.

Table of Contents

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 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 cost in the Consolidated Statement of Operations. Specifically, this standard requires the service cost component of net periodic benefit cost to be recorded in the same income statement line as other employee compensation costs and all other components of net periodic benefit cost must be presented as non-operating items. 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 currently anticipates adopting this standard retrospectively as of January 1, 2018. The Company’s defined benefit plans have been frozen, so the Company is no longer incurring service costs related to the plans. Therefore, after adoption, the entire net periodic benefit cost will be presented in the Consolidated Statements of Operations in non-operating income (expense).

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 September 30,		Nine Months Ended September 30,	
	2017	2016 (Recast)	2017	2016 (Recast)
Revenue				
Publishing	$ 52,603	$ 55,825	$ 160,916	$ 172,905
Marketing Services	7,956	8,955	23,633	20,984
Total	$ 60,559	$ 64,780	$ 184,549	$ 193,889
Operating Income (Loss)				
Publishing	$ (5,885)	$ (1,654)	$ (11,818)	$ (2,456)
Marketing Services	836	1,165	2,215	2,845
Total	$ (5,049)	$ (489)	$ (9,603)	$ 389
Noncash Expenses				
Publishing				
Depreciation	$ 2,565	$ 2,471	$ 7,762	$ 7,669
Amortization	—	27	—	79
Goodwill impairment	—	—	228	—
Total	$ 2,565	$ 2,498	$ 7,990	$ 7,748
Marketing Services				
Depreciation	$ 42	$ 17	$ 78	$ 56
Amortization	200	198	599	601
Total	$ 242	$ 215	$ 677	$ 657

	September 30, 2017	December 31, 2016 (Recast)
Total Assets		
Publishing	$ 129,933	$ 170,820
Marketing Services	23,860	21,911

Total	$ 153,793	$ 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 nine months ended September 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 nine months ended September 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 September 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.

	September 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	(2,197)	(1,598)
Net Carrying Value	$ 4,273	$ 4,872

In the nine months ended September 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 $200 and $599 for the three and nine months ended September 30, 2017, respectively, and $225 and $680 for the three and nine months ended September 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 an additional 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 September 30, 2017.

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, 2016	114,979	$ 8.21
Canceled	(14,635)	20.16
Outstanding at September 30, 2017	100,344	6.46

As of September 30, 2017, the aggregate intrinsic value of outstanding options was $8 and the weighted average remaining contractual life of the Company's stock options was approximately 1 year. No options were exercised in the three months ended September 30, 2016. The aggregate intrinsic value of options exercised in the nine months ended September 30, 2016, was $300.

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 September 30, 2017, the liability for the portion of the awards to be redeemed in cash was $853.

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 September 30, 2017	224,053				6.07

Table of Contents

In the nine months ended September 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 September 30, 2017 and December 31, 2016, 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, 2017, unrecognized compensation expense related to non-vested RSUs totaled $1,160, which is expected to be recognized over a weighted average period of 1.7 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,			
2017	$ 149	$ 82	$ 231
2016	86	303	389
Nine Months Ended September 30,			
2017	$ 775	$ 399	$ 1,174
2016	534	604	1,138

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 $10 and $77 for the three months ended September 30, 2017 and 2016, respectively, and $261 and $1,361 for the nine months ended September 30, 2017 and 2016, respectively. Effective income tax rates from continuing operations were (10.9) percent and 137.5 percent for the nine months ended September 30, 2017 and 2016, respectively. The effective income tax rate for the nine months ended September 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 1,500 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. In the third quarter, the Company made a voluntary contribution of $20,000 to the Pension Plans and using the contribution, in addition to liquidating $23,455 of plan assets, transferred $43,455 of pension liabilities to an insurance company. As a result of this de-risking action, the Company reduced the number of participants in our Pension Plans by 796, or 36 percent. In the three months ended September 30, 2017, a charge to pension expense for $5,911 was recorded to reflect the amortization of losses in accumulated other comprehensive loss associated with this transaction. In addition, the projected benefit obligation was remeasured as of September 30, 2017, which resulted in an actuarial gain of $3,648 that was recorded to other comprehensive income (loss) in the three months ended September 30, 2017; see Note 8 – Shareholders’ Equity. This transaction occurred on September 20, 2017, but the Company elected to use the measurement date practical expedient, allowing the Company to use September 30, 2017 as the alternative measurement date. No material transactions or changes in market conditions occurred between the transaction date and the alternative measurement date.

Table of Contents

Net Periodic Pension Expense (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 expense (benefit).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest cost	$ 2,386	$ 2,525	$ 7,158	$ 7,574
Expected return on plans' assets	(3,313)	(3,396)	(9,940)	(10,189)
Amortization of actuarial loss	75	11	224	42
Recognized settlement loss	5,911	—	5,911	—
Net periodic pension expense (benefit)	$ 5,059	$ (860)	$ 3,353	$ (2,573)

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 September 30, 2017 and 2016, the Company recorded expense of $175 and $248, respectively, and during the nine months ended September 30, 2017 and 2016, the Company recorded expense of $670 and $749, respectively, for matching contributions to the Savings Plan.

Note 8: Shareholders’ Equity

Dividends. On September 6, 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 November 9, 2017, which is payable on December 1, 2017. During the three months ended September 30, 2017, the Company recorded $1,775 to accrue for dividends declared but not yet paid.

On October 27, 2017, the Company's board of directors declared a special, one-time cash dividend of $0.14 per share to shareholders of record and holders of RSUs as of the close of business on November 9, 2017, which is payable on December 1, 2017.

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.

Table of Contents

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 September 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	$ (39,195)	$ (39,588)	$ 393	$ (38,474)	$ (38,867)	$ 393
Actuarial gains	3,648	3,648	—	—	—	—
Amortization	5,967	5,986	(19)	(17)	11	(28)
Balance, end of period	$ (29,580)	$ (29,954)	$ 374	$ (38,491)	$ (38,856)	$ 365

	Nine Months Ended September 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
Actuarial gains	3,648	3,648	—	—	—	—
Amortization	6,080	6,135	(55)	(49)	42	(91)
Balance, end of period	$ (29,580)	$ (29,954)	$ 374	$ (38,491)	$ (38,856)	$ 365

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Earnings (Numerator)				
Net income (loss) attributable to A. H. Belo Corporation	$ 2,580	$ (497)	$ (2,655)	$ (436)
Less: Dividends to participating securities	35	29	117	83
Net income (loss) available to common shareholders from continuing operations	$ 2,545	$ (526)	$ (2,772)	$ (519)
Shares (Denominator)				
Weighted average common shares outstanding (basic)	21,753,166	21,676,260	21,729,212	21,601,828
Effect of dilutive securities	1,461	—	—	—
Adjusted weighted average shares outstanding (diluted)	21,754,627	21,676,260	21,729,212	21,601,828
Earnings Per Share from Continuing Operations				
Basic and diluted	$ 0.12	$ (0.02)	$ (0.13)	$ (0.02)

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 504,648 options and RSUs outstanding as of September 30, 2017 and 2016, respectively, were excluded from the calculation because the effect was anti-dilutive.

Table of Contents

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. 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 were available for sale. On September 22, 2017, the Company completed the sale of one parcel of land and received net cash proceeds of $8,252, generating a gain of approximately $5,000. The remaining two parcels of land, with a total carrying value of $5,510, are reported as assets held for sale as of September 30, 2017.

On October 19, 2017, the Company completed the sale of the remaining two parcels of land and received net cash proceeds of $13,048, generating a gain of approximately $7,500.

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 nine months ended September 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 September 30,				Nine Months Ended September 30,			
	2017	Percentage Change		2016 (Recast)	2017	Percentage Change		2016 (Recast)
Publishing								
Advertising and marketing services	$ 26,919	(8.3)	%	$ 29,349	$ 82,468	(9.0)	%	$ 90,597
Circulation	18,845	(4.0)	%	19,633	57,099	(4.5)	%	59,806
Printing, distribution and other	6,839	(0.1)	%	6,843	21,349	(5.1)	%	22,502
Total Net Operating Revenue	52,603	(5.8)	%	55,825	160,916	(6.9)	%	172,905
Total Operating Costs and Expense	58,488	1.8	%	57,479	172,734	(1.5)	%	175,361
Operating Loss	$ (5,885)	(255.8)	%	$ (1,654)	$ (11,818)	(381.2)	%	$ (2,456)
Marketing Services								
Advertising and marketing services	$ 7,956	(11.2)	%	$ 8,955	$ 23,633	12.6	%	$ 20,984
Total Net Operating Revenue	7,956	(11.2)	%	8,955	23,633	12.6	%	20,984
Total Operating Costs and Expense	7,120	(8.6)	%	7,790	21,418	18.1	%	18,139
Operating Income	$ 836	(28.2)	%	$ 1,165	$ 2,215	(22.1)	%	$ 2,845

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 26.6 percent of consolidated revenue in 2014, have declined to 19.0 percent of consolidated revenue thus far in 2017, 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. As a result of the continued declines the Publishing segment experienced, and expects to continue to experience, in advertising and print circulation revenues, the Publishing reporting unit's goodwill was determined to be fully impaired as of December 31, 2016. 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 fully impaired. Therefore, the Company recorded a noncash goodwill impairment charge of $228 in the first quarter of 2017.

The Company has responded to these challenges by expanding 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.

Table of Contents

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.

Advertising and marketing services revenue

Advertising and marketing services revenue was 57.6 percent and 57.5 percent of total revenue for the three and nine months ended September 30, 2017, respectively, and 59.1 percent and 57.5 percent for the three and nine months ended September 30, 2016, respectively.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	Percentage Change	2016 (Recast)	2017	Percentage Change	2016 (Recast)
Publishing						
Display advertising	$ 6,750	(14.9) %	$ 7,933	$ 21,487	(13.7) %	$ 24,910
Classified advertising	4,432	(11.1) %	4,984	13,534	(9.1) %	14,882
Preprint advertising	9,971	(12.3) %	11,365	30,503	(10.7) %	34,140
Digital advertising	5,766	13.8 %	5,067	16,944	1.7 %	16,665
Marketing Services						
Digital services	6,194	(21.4) %	7,880	19,902	8.7 %	18,301
Other services	1,762	63.9 %	1,075	3,731	39.1 %	2,683
Advertising and Marketing Services	$ 34,875	(9.0) %	$ 38,304	$ 106,101	(4.9) %	$ 111,581

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 in both periods, except the financial category in the three and nine months ended September 30, 2017. The department store, entertainment, food and beverage, medical, furniture and other retail categories experienced the greatest declines with a combined revenue decrease of approximately $1,178 and $3,086, for the three and nine months ended September 30, 2017, respectively. The revenue decrease was driven heavily by a retail volume decline of 10.4 percent and 10.1 percent, for the three and nine months ended September 30, 2017, 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 declined for the three and nine months ended September 30, 2017, due to lower volumes in substantially all categories except 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 rate decline in preprint newspaper inserts and 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, sales of online automotive classifieds on the cars.com platform, as well as online employment and obituary classified advertising on third-party websites sold under a print/digital bundle package. Revenue increased in the three and nine months ended September 30, 2017, due to a higher volume of online automotive classifieds on the cars.com platform.

Marketing Services

Digital services – Digital marketing includes targeted and multi-channel advertising placed on third-party websites, content development, social media management, search optimization, and other consulting. DMV Holdings provided a significant portion of the growth in digital marketing revenue. DMV Holdings revenue increased $992 and $4,868 in the three and nine months ended

Table of Contents

September 30, 2017, respectively. The digital services revenue increase offset 36.5 percent of the core print advertising revenue decline in the nine months ended September 30, 2017.

Other services – Other services revenue increased $687 and $1,048 in the three and nine months ended September 30, 2017, respectively, due to the sale of promotional merchandise by MarketingFX.

Circulation revenue

Circulation revenue was 31.1 percent and 30.9 percent of total revenue for the three and nine months ended September 30, 2017, respectively, and 30.3 percent and 30.8 percent for the three and nine months ended September 30, 2016, respectively.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	Percentage Change	2016	2017	Percentage Change	2016
Publishing Circulation	$ 18,845	(4.0) %	$ 19,633	$ 57,099	(4.5) %	$ 59,806

Revenue decreased primarily due to a decline in home delivery volume of 7.1 percent and 8.3 percent, for the three and nine months ended September 30, 2017, respectively. Single copy revenue also decreased compared to prior year, driven by a decline in single copy paid print circulation volume of 21.4 percent and 19.3 percent, for the three and nine months ended September 30, 2017, respectively. The single copy volume decline was partially offset by an increase in the daily single copy rate, which we put in place in November 2016.

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, 2017, the Company generated $109 and $400, 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 11.3 percent and 11.6 percent of total revenue for the three and nine months ended September 30, 2017, respectively, and 10.6 percent and 11.7 percent for the three and nine months ended September 30, 2016, respectively.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	Percentage Change	2016 (Recast)	2017	Percentage Change	2016 (Recast)
Publishing						
Printing, Distribution and Other	$ 6,839	(0.1) %	$ 6,843	$ 21,349	(5.1) %	$ 22,502

The Company aggressively markets the capacity of its printing and distribution assets to other newspapers that would benefit from cost sharing arrangements. Additionally, the Company's event activation, promotion and marketing services provider, CrowdSource, works closely with cities and other corporate sponsors to bring large entertainment events to local communities. Revenue remained flat in the three months ended September 30, 2017, and decreased in the nine months ended September 30, 2017, due to a decline in revenue related to events the Company did not host in 2017.

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,		
	2017	Percentage Change	2016 (Recast)	2017	Percentage Change	2016 (Recast)
Publishing						
Employee compensation and benefits	$ 26,384	16.0				