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A. H. Belo Corp
Form 10-K
March 06, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2014

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file no. 1-33741

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	38-3765318 (I.R.S. Employer Identification No.)
P. O. Box 224866, Dallas, Texas 75222-4866 (Address of principal executive offices, including zip code)	(214) 977-8200 (Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act: Title of each class Series A Common Stock, \$.01 par value Preferred Share Purchase Rights	Name of each exchange on which registered New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Series B Common Stock, \$.01 par value (Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the registrant’s voting stock held by nonaffiliates on June 30, 2014, based on the closing price for the registrant’s Series A Common Stock on such date as reported on the New York Stock Exchange, was approximately \$223,440,910.*

Shares of Common Stock outstanding at February 27, 2015: 21,730,792 shares (consisting of 19,342,555 shares of Series A Common Stock and 2,388,237 shares of Series B Common Stock).

* For purposes of this calculation, the market value of a share of Series B Common Stock was assumed to be the same as the share of Series A Common Stock into which it is convertible.

Documents incorporated by reference:

Selected designated portions of the registrant’s definitive proxy statement, relating to the Annual Meeting of Shareholders to be held on May 14, 2015, are incorporated by reference into Parts II and III of this Annual Report.

A. H. Belo Corporation 2014 Annual Report on Form 10-K

A. H. BELO CORPORATION
FORM 10-K
TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	<u>PAGE 1</u>
Item 1A. <u>Risk Factors</u>	<u>PAGE 9</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>PAGE 12</u>
Item 2. <u>Properties</u>	<u>PAGE 12</u>
Item 3. <u>Legal Proceedings</u>	<u>PAGE 12</u>
<u>PART II</u>	
Item 4. <u>Mine Safety Disclosures</u>	<u>PAGE 13</u>
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>PAGE 13</u>
Item 6. <u>Selected Financial Data</u>	<u>PAGE 16</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>PAGE 17</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>PAGE 29</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>PAGE 30</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>PAGE 30</u>
Item 9A. <u>Controls and Procedures</u>	<u>PAGE 30</u>
Item 9B. <u>Other Information</u>	<u>PAGE 30</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>PAGE 31</u>
Item 11. <u>Executive Compensation</u>	<u>PAGE 31</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>PAGE 31</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>PAGE 31</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>PAGE 31</u>
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>PAGE 32</u>
<u>Signatures</u>	<u>PAGE 35</u>
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>PAGE 37</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>PAGE 38</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>PAGE 39</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	<u>PAGE 40</u>
<u>Consolidated Statements of Shareholders’ Equity for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>PAGE 41</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>PAGE 42</u>
<u>Notes to Consolidated Financial Statements</u>	<u>PAGE 43</u>

Table of Contents

PART I

Item 1. Business

A. H. Belo Corporation and subsidiaries (“A. H. Belo” or 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 is able to deliver 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 508 Digital and Your Speakeasy, LLC and provides event promotion and marketing services through Crowdsource.

In February 2008, the Company separated its publishing operations from its former parent in a spin-off transaction and A. H. Belo became an independent registrant listed on the New York Stock Exchange (NYSE trading symbol: AHC). All dollar amounts in this Annual Report on Form 10-K are in thousands, except per share amounts, unless the context requires otherwise.

The Dallas Morning News’ first edition was published on October 1, 1885. It is one of the leading metropolitan newspapers in America and its success is founded upon the highest standards of journalistic excellence, with an emphasis on comprehensive local news and information and community service. The newspaper is distributed primarily in Dallas County and 10 surrounding counties. This coverage area represents one of the most populous and fastest growing metropolitan areas in the country. The Dallas Morning News has been awarded nine Pulitzer Prizes for news reporting, editorial writing and photography. The Dallas Morning News also publishes Briefing, a newspaper distributed four days per week at no charge to nonsubscribers in select coverage areas; and Al Dia, an award-winning Spanish-language newspaper published on Wednesdays and Sundays and distributed at no charge in select coverage areas. Other news products are also published targeting various communities in the North Texas area. The Dallas Morning News’ financial and operating results include the financial and operating results of the Denton Record-Chronicle.

In 2014, the Company completed the sale of substantially all of the assets and certain liabilities comprising the newspaper operations of The Providence Journal, a daily newspaper in Providence, Rhode Island, and the oldest continuously-published daily newspaper in the United States. In 2013, the Company completed the sale of The Press-Enterprise, a daily newspaper in Riverside, California, which serves the Inland Southern California region. Upon completion of these sales, the Company no longer owns newspaper operations in either Providence, Rhode Island or Riverside, California. The Company continues to hold and market for sale certain land and buildings in Providence, Rhode Island, which served as the administrative headquarters of The Providence Journal. The Company also retains the obligation for the A. H. Belo Pension Plan II, which provides benefits to former employees of The Providence Journal Company. These dispositions and the results of operations associated with The Providence Journal and The Press-Enterprise are reported as discontinued operations in the Company’s financial statements included herein. Amounts included in this Annual Report on Form 10-K exclude results of operations related to The Providence Journal and The Press-Enterprise unless otherwise indicated.

Table of Contents

The Company's primary revenue is derived from advertising sold in published issues of its newspapers and on the Company's websites, the sale of marketing services, the sale of newspapers to subscribers and single copy customers, and commercial printing and distribution. The following sets forth the Company's distribution of revenue in 2014, 2013 and 2012:

Advertising and Marketing Services Revenue

Advertising and marketing services revenue accounted for approximately 58.0 percent of total revenue for 2014. The Company has a comprehensive portfolio of print and digital advertising products and marketing services which include:

Display – Display revenue results from sales of advertising space within the Company's core newspapers and niche publications to local, regional or national businesses with local operations, affiliates or resellers.

Classified – Classified revenue, which includes automotive, real estate, employment and other, results from sales of advertising space in the classified and other sections of the Company's newspapers.

Preprint – Preprint revenue results from sales of preprinted advertisements or circulars inserted into the Company's core newspapers and niche publications, or distributed by mail or third-party distributors to households in targeted areas in order to provide total market coverage for advertisers. The Company's capabilities allow its advertisers to selectively target preprint distribution at the sub-zip code level in order to optimize coverage for the advertisers' locations.

Digital – Digital advertising revenue includes the sales of display advertisements and classified advertisements on the Company's websites and on third-party websites, such as cars.com, Yahoo! and monster.com. The Company offers digital advertising through programmatic channels which provides placement and targeting efficiencies within an integrated advertising and marketing campaign to customers.

Marketing services revenue, also a component of digital advertising revenue, is generated by 508 Digital and Your Speakeasy, LLC ("Speakeasy"). Services provided are directed towards small to middle-market size businesses and include development of mobile websites, search engine marketing and optimization, social media account management and content marketing for its customers' web presence.

Table of Contents

In addition to daily newspapers, the Company publishes a number of niche publications which provide a vehicle for delivery of display, classified, preprint and digital advertising, typically to nonsubscribers of the Company's core newspapers and typically at no charge. These publications target specific demographic groups or geographies and include Spanish-language newspapers, lifestyle publications and luxury publications that target high-income consumers. Most niche publications have related websites and mobile applications, allowing digital access by consumers. The niche publications provide unique content, but also incorporate the news content from the core newspapers while leveraging the Company's printing, distribution and technology infrastructure to drive additional advertising revenue at a low incremental cost. From time to time, the Company produces magazines or special newspaper editions to promote business, sporting or other events in the North Texas area, such as the Top 100 Places to Work or the John F. Kennedy's 50th Anniversary reprint edition. These publications allow the Company to generate revenue through advertising sales in the publications and through increased circulation or fees for the publications. A few of these publications are part of broader event-based campaigns supported by Crowdfunder, which promotes events and provides exposure for the Company's tradename throughout our geographic market.

The Company operates the largest newsroom in Texas. The combined reach of the Company's core daily newspapers, digital platforms and niche publications allows the Company to maintain its position as a primary local media publisher in the area. The Company leverages its market position, products and distribution resources to provide direct mail advertising, total market coverage, zoned editions and event-based publications which enable the Company's advertisers to reach new or targeted markets. These products allow existing advertisers to reach their target audience through integrated advertising campaigns, while also providing the Company a portfolio of products with which to attract new advertisers.

The following sets forth the distribution of the Company's advertising and marketing services revenue in 2014, 2013 and 2012 by product type.

As the newspaper industry continues to face challenges in maintaining display and classified revenues, the Company continually seeks to stabilize and grow advertising revenues through strategic diversification in advertising and marketing services products. The Company has identified and developed new product and investment opportunities that leverage the scale of its news content and its operating infrastructure, as well as complement the Company's advertising customers, subscriber base and digital platforms. In 2012, 508 Digital was formed as a division of The Dallas Morning News, offering digital marketing services to small companies in the Dallas metropolitan area that include development of mobile websites, search engine marketing and optimization and social

Table of Contents

media marketing for its customers' web presence. Also in 2012, the Company and a Dallas-based advertising agency formed Speakeasy, which targets middle-market business customers and provides turnkey social media account management and content marketing services. In addition to these digital initiatives, the Company produces certain niche products, such as FD, an award-winning luxury magazine and website targeting affluent residents in the Dallas area, and other entertainment, luxury and wedding guide publications and related websites.

The Company is currently exploring further opportunities to grow and diversify revenue through acquisition or investment in advertising or marketing services companies with established financial performance and strong management teams. Acquisition and investment efforts are focused on businesses with products and services that complement the existing advertising and marketing services currently offered. In 2015, the Company expanded its marketing services offerings through the acquisition of three related businesses providing a marketing automation platform, search engine marketing, direct mail and promotional products. These businesses will provide the Company greater prominence as a market leader, offering to new and existing customers an integrated print and digital solution for their advertising and marketing requirements.

Circulation Revenue

Circulation revenue, which includes subscription and single copy sales revenue related to the Company's core newspapers in print and digital formats, accounted for approximately 31.1 percent of total revenue for 2014, consistent with the 31.2 percent in 2013. A. H. Belo's steadfast commitment to producing superior, unduplicated local content enables the Company's newspapers to charge premium subscription rates. The Dallas Morning News' goal is to maximize the amount of recurring revenue from consumers of the Company's print and digital products and to reduce reliance on advertising revenue. Although circulation volumes continue to face negative pressures, the Company believes many subscribers in the North Texas area are willing to pay for premium content. Accordingly, the Company continuously assesses the content provided to subscribers and their willingness and ability to pay higher rates by geographic area. In 2014 and 2013, the Company implemented effective rate increases to subscribers and retailers. As part of the Company's strategy to provide premium print content to subscribers, the Company offers in its Sunday edition, inserts from certain national newspapers, such as The Washington Post or The New York Times. In addition, periodically throughout the year, various special interest magazines, such as Healthy Living or Your Money, will be included with Sunday editions as a part of subscribers' home delivery news package. Subscriber and retail rates for these editions will reflect a charge for this content.

In October 2013, The Dallas Morning News discontinued the paywall established in 2011 which restricted access for nonsubscribers to certain premium content on dallasnews.com. Research conducted since the establishment of the paywall suggested core seven-day subscribers would continue to consume news content primarily through print media even when lower digital subscription rates were offered. Starting in October 2013, news content on dallasnews.com became accessible to everyone, free of charge. The website provides expanded news and entertainment videos and greater access to content through social media sites. In addition to the free website, the Company offers a paid digital replica version of The Dallas Morning News to subscribers who prefer to consume news content through a digital device in a more traditional format.

The Company's news websites offer users late-breaking and other up-to-date news coverage, user-generated content, advertising, e-commerce and other services. The Company seeks to position dallasnews.com as the premier provider of on-line local news, event and entertainment news and advertising in the North Texas area. Readers can access news content across multiple digital platforms and obtain relevant local customized content and advertising. In addition to providing a digital replica of certain publications through its ePapers, the Company offers mobile websites and mobile applications for smart phones, tablets and e-readers. The Company's journalists have expanded their reach and deepened their engagement with audiences by delivering news and content through social media platforms, such as blogs, Facebook and Twitter, which direct traffic to its core websites. In 2014, the dallasnews.com was redesigned to provide a single, unified website built for mobile use first and designed to be responsive for all devices. These enhancements allow the website to quickly respond as technology evolves and new media are introduced, such as wearable devices or hybrid phone or tablet devices. The enhancements also collect better data on how users interact with the Company's content in order to support informed choices related to native application strategies.

Table of Contents

Readership of the Company's newspapers is tracked by Scarborough Research, which estimated the number of individuals reading a newspaper print edition to be approximately 1,345,000 for The Dallas Morning News, as reported in the September 2014 Publishers' Statements, which are subject to audit. This readership volume represents a reach of approximately 28.4 percent of the designated market for this newspaper in the Company's circulation area. The average print and digital volumes associated with A. H. Belo's primary daily newspaper and niche publications are reported and verified by a circulation audit agency, as set forth in the table below.

Newspaper	2014		2013		2012	
	Daily Circulation ^(a)	Sunday Circulation	Daily Circulation ^(a)	Sunday Circulation	Daily Circulation ^(a)	Sunday Circulation
The Dallas Morning News Group						
The Dallas Morning News ^(b)	272,245	382,300	271,189	379,379	267,058	372,930
Niche publications ^(b)	118,760	325,492	118,626	324,536	120,299	327,719
Total	391,005	707,792	389,815	703,915	387,357	700,649

(a) Daily circulation is defined as a Monday through Saturday six-day average.

Average circulation data for The Dallas Morning News includes its niche publications and the Denton Record-Chronicle, which are obtained from the Publisher's Statement for the six-month periods ended (b) September 30, 2014, 2013 and 2012, respectively, as filed with the Alliance for Audited Media (the "Audit Bureau"). The September 2014 statements are subject to audit. Year-over-year increases in reported daily circulation for 2014 and 2013 for The Dallas Morning News are due to increased reported digital subscribers for each of these periods.

Printing, Distribution and Other Revenue

Printing, distribution and other revenue accounted for approximately 10.9 percent of total revenue for 2014 and includes commercial printing, distribution, direct mail and event-based services. The Company provides commercial printing services for certain national newspapers that require regional printing. The Company also prints various local and regional newspapers, including the Fort Worth Star-Telegram, which was added in 2014. Newsprint used in the production of large national newspapers is generally provided by the customer. Home delivery and retail outlet distribution services are also provided for other national and regional newspapers delivered into the Company's coverage areas. The Company also operates a direct mail service business in Phoenix, Arizona.

Through Crowdsourc, the Company's newly-formed subsidiary providing marketing and promotional support to event organizers, the Company leverages its subscriber and advertiser base to promote community events, such as One Day University, an educational speaker event; Untapped Festivals, LLC ("Untapped"), which hosts festivals providing food, craft beer and entertainment across major Texas cities; and other community-related events.

Raw Materials and Distribution

The basic material used in publishing newspapers is newsprint. Currently, most of the Company's newsprint is obtained through a purchasing consortium. Management believes the Company's sources of newsprint, along with available alternate sources, are adequate for the Company's current needs.

During 2014, Company operations consumed 33,717 metric tons of newsprint at an average purchase price of \$617 per metric ton. Consumption of newsprint in 2013 was 36,979 metric tons at an average cost of \$620 per metric ton. The Company's newspapers and other commercial print products are produced at its facility in Plano, Texas. Distribution of printed products to subscribers, retailers and newsstands is made under terms of agreements with third-party distributors. The Company believes a sufficient number of third-party distributors exist to allow uninterrupted distribution of the Company's products.

Other Interests

In addition to its core newspaper operations, A. H. Belo owns the following investment interests:

Wanderful Media, LLC ("Wanderful") – The Company owns a 13.0 percent interest in Wanderful, which operates FindnSave.com, a digital shopping platform on both desktop and mobile where consumers can find national and local retail goods and services for sale. This platform combines local media participation with advanced search and database technology to allow a consumer to view online sales circulars and local advertised offers, or search for an item and receive a list of local advertisers and the price and terms offered for the searched item. It also provides key

logistics technology and incentives to drive consumers to retailer locations through a geo-fence platform.

Table of Contents

ResponseLogix, Inc., operating as Digital Air Strike (www.digitalairstrike.com) – The Company owns a 2.1 percent interest in Digital Air Strike, which provides automotive dealers a suite of digital marketing communications, behavioral targeting and social media solutions.

Sawbuck Realty, Inc., operating as Homesnap (www.homesnap.com) – The Company owns a 19.8 percent interest in Homesnap, a free online real estate search platform with brokerage partnerships, that can be accessed through its website and mobile applications, allowing users to gather current information on real estate listings.

In 2014, the Company sold its 3.3 percent interest in Classified Ventures, LLC (“Classified Ventures”) to Gannett Co., Inc., along with other unit holders. The two principal business operated by Classified Ventures included cars.com and apartments.com. The Company renegotiated its affiliate agreement with Classified Ventures, allowing the Company to continue to resell advertising on cars.com for the next five years.

The Company owns a 70.0 percent interest in Speakeasy and a 51.0 percent interest in Untapped. The assets, liabilities and results of operations from these companies are reported within the A. H. Belo consolidated financial statements as the Company has a controlling financial interest in these investments.

Competitive Strengths and Challenges

The Company’s strengths are:

- established, well-known and trusted brands within each of its markets
- the ability to develop innovative new product and service offerings which leverage the Company’s brand equity, existing content, distribution platforms, technologies and relationships
- product or service offerings that allow the Company to offer advertisers a customized and integrated advertising and marketing solution through desired media channels
- sufficient liquidity to allow the Company to opportunistically invest in or acquire businesses that complement the Company’s advertising or marketing services business