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AHC - Q3 2017 A. H. Belo Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q3 2017 earnings conference call. (Operator Instructions) As a reminder, the conference is being recorded.

I would now like to turn the conference over to CFO and Senior Vice President, Katy Murray. Please go ahead.

Kathryn Mary Murray *- A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Thank you, Lois, and good morning, everyone. Welcome to our third quarter 2017 conference call. I am joined by Jim Moroney, our Chief Executive Officer, who will assist me in leading today's call. Grant Moise, Executive Vice President of A. H. Belo Corporation and General Manager of the Dallas Morning News is also available for Q&A.

After the market closed last night, we issued a press release announcing our third quarter 2017 results. We have posted this release on our website under the Investor Relations section.

Unless otherwise specified, comparisons used on today's call measure third quarter 2017 performance from continuing operations against third quarter 2016 performance from continuing operations.

Our discussion today will include forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those statements. The company assumes no obligation to update the information and this communication except as otherwise required by law. Additional information about these factors is detailed in the company's press releases and publicly available filings with the SEC.

Finally, today's discussion will include non-GAAP financial measures. We believe that non-GAAP financial measures provide useful supplemental information to assist investors in determining performance comparisons to our peers. Reconciliations to the most directly comparable financial measures presented in accordance with GAAP are provided on our website under the Investor Relations section.

Yesterday afternoon, we reported net income attributable to A. H. Belo Corporation of $2.6 million or $0.12 per fully diluted share, an increase of $0.14 per share compared to the third quarter of 2016. On a non-GAAP basis, adjusted operating income, which excludes depreciation, amortization, severance expense and pension plan sentiment loss, was $4.2 million, an increase of $1.9 million compared to the $2.3 million of adjusted operating income reported in the third quarter of 2016. The increase year-over-year is primarily the result of expense management.

Turning to revenue highlights. For the third quarter of 2017, total revenue of $60.6 million represents a decrease of a net $4.2 million or 6.5% when compared to the $64.8 million reported in the third quarter of last year.

Advertising and marketing services revenue of $34.9 million reported this quarter reflects a net decrease of $3.4 million or 9% when compared to the third quarter of 2016.

Circulation revenue for the third quarter was $18.8 million, representing an $800,000 or 4% decline when compared to the third quarter of last year. The decline was primarily due to a decrease in home delivery revenue. Single copy revenue also decreased compared to prior year, driven by a decline in single copy volumes, partially offset by an increase in the daily single copy rate which we put in place in November of 2016.

Printing, distribution and other revenue reported was $6.8 million, which remained flat compared to last year.

Total consolidated operating expense in the third quarter was $65.6 million, an increase of $300,000 or 0.5% compared to the prior year.

Excluding severance expense of $531,000, depreciation and amortization expense of $2.8 million and pension plan settlement loss of $5.9 million, adjusted operating expense was $56.4 million, a decrease of $6.1 million or 9.8% compared to $62.5 million of adjusted operating expense reported in the third quarter of 2016. The decline in expense is primarily due to decreases in employee compensation and benefits, temporary services, distribution and newsprint expense.

Turning to the balance sheet. As of September 30, we had $50 million of cash and cash equivalents and no debt. Through September 30, we have spent $7.8 million of the $13 million of capital expenditures planned for this year. This includes the capital for the move to our new headquarters later this quarter.

Our cash balance as of today is approximately $65 million. As of September 30, we had headcount of 1,107, which reflects a decrease of 82 or 6.9% from the 1,189 we had at September 30 of last year. Excluding the hiring at DMV of 5 and the conversion of production temporaries to FTEs of 51, the company's headcount decreased by 138 or 11.6% when compared to the prior year period. As a reminder, our conversion of temporaries to full-time employees has lowered our labor costs in our production facility.

In Q3, we continued to execute on our strategy to de-risk our pension plans. We made a voluntary contribution of $20 million. And using those funds, and additional assets of $23.5 million from the plans, we transferred approximately $43.5 million of pension liabilities to an insurance company. As a result, we reduced the number of participants in our pension plans by 796, or 36%. At this time, we do not expect to have a mandatory contribution until 2023. And assuming no changes in the interest rate and the rate of return we are currently seeing on our plan assets, that contribution will be approximately $3 million.

In the second quarter, we announced that we had placed our 3 downtown lots up for sale. In September, we sold one of those lots, and this month, we closed on the other 2 lots. In total, the company has received net proceeds of approximately $21.3 million, and I will discuss the tax impact when I cover taxes in a minute.

We are also very excited that we will start our relocation to our new headquarters in a couple of weeks and expect that we will have all employees moved by the end of the year. Once this move is complete, we will turn our attention to our existing headquarters. While we have not yet made a decision on our next step, we have been engaged in various due diligence on the property so that we can move quickly once we make a decision.

This quarter, we continued to calculate our income tax provision using the discreet method approach. While we had capital gains on the sale of all 3 of our properties, the pension contribution is tax-deductible and will offset 100% of those taxable gains.

In addition, we continue to generate net opening losses and the only cash tax we have is the annual Texas margin tax at approximately $1.2 million.

We are very pleased with the accomplishments we made this quarter in monetizing our real estate assets and reducing our pension liabilities.

I will now turn the call over to Jim Moroney.

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Thank you, Katy, and good morning, everyone. In the third quarter, we continued to see positive momentum in our growth strategies, which are built around digital advertising and marketing services revenue and digital subscriptions. Our digital advertising and marketing services revenue result this quarter continued to reflect the strong growth of our marketing services revenue, especially coming from DMV. Against the third quarter of 2016, DMV revenue grew $1 million or 23 -- 20.3%, which is up against 106% growth that DMV experienced in Q3 of 2016 over Q3 of 2015.

Additionally, The Dallas Morning News sales team generated 351 sales to DMV and Speakeasy in the third quarter. This compares to 323 sales generated in the third quarter of 2016, an increase of 8.7%. I'd like to emphasize, though, that what is most important here is the absolute number of 351 sales.

The growth in our digital advertising and marketing services revenue also continues to make a more meaningful contribution to our revenue. For the third quarter of 2017, total digital advertising and marketing services revenue was $13.7 million, which represents 39.3% of our total third quarter advertising and marketing services revenue compared to 36.6% for the same period last year, a 270 basis point improvement. In addition, the $13.7 million represent 22.7% of our third quarter total revenues compared to 21.6% for the same period last year, a 110 basis point improvement.

On a year-to-date basis, total digital advertising and marketing services revenue was $40.6 million or 22% of total revenue. This compares to $37.6 million reported for the comparable period in 2016, which represented 19.4% of total revenue for that period. We are very pleased with the market opportunity that we see in front of us to continue to grow this segment of our business and make it a more meaningful part of our company's financial performance.

We are also encouraged with the growth in digital subscriptions. This quarter, we made steady progress in building a base of paid digital subscribers, which increased to 22,103 at the end of the third quarter, a gain of 1,833 subscribers or 9% on a sequential basis over the total at the end of the second quarter of this year. On a year-over-year basis, digital subscribers grew 9,158 or 70.7% when compared to the total digital subscribers of 12,945 at the end of the third quarter of last year.

This quarter, we also capitalized on the popularity of Texas high school football while making available a paid season pass that gives subscribers to the season pass access to all of our digital high school football coverage, including live play-by-play, which we provide for more than 50 local high school football games each week. In the month of September, we signed up 570 new paid subscribers to this service. This is the first time we've offered access to a niche site, separate from our all digital access bundle. These early results suggest that there can be other narrow verticals that have passionate followings to which we can offer a special paid digital subscription, separate from our all access bundle.

In addition to our season pass, we experimented with game passes, which allow for 24-hour access. In our first month, we sold 76 single-game passes. This opens up another revenue for paid digital access, time-based access. And we will look for ways to experiment more with this kind of paid access offer in the future.

As we have discussed previously, we are making the growth of paid digital subscriptions our highest priority, and we'll continue to adopt best practices and look for innovative ways to give consumers content they are willing to pay for.

In addition to being very pleased with the growth that we have seen in both digital subscriptions and in the growth of our digital advertising and marking services revenue, I'm also pleased with the balance sheet accomplishments that Katy described previously. By announcing that we will be paying a special dividend of $0.14, and then in the fourth quarter, we'll be restarting our share buyback program, we are letting our shareholders know that we have listened to them and that we continue to appreciate their support and confidence.

Lois, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is from Chris Mooney from Wedbush Securities.

Chris Mooney

Just for fun, can you enlighten us why $0.14 instead of $0.15 or $0.13 or $0.20 or whatever?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Chris, we decided that we would peg it to a -- what -- a percent of our market cap. And we did a little research and kind of picked the median point for what most public companies have been doing as of late in terms of special dividend distributions, and that number at that median was about 3% of market cap. So that comes to about $3 million, and that translated to $0.14. I'm so glad you asked because I kept thinking about we should do $0.15. But then we said, no, we're going to stay with the stat and we're going to go right there at the median, so that's how we got there.

Chris Mooney

Okay. Glad to see the share repurchase returning, as you can imagine, we've talked about it a bit. Any thoughts beyond the 1 million shares that's proposed or being reinstated?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Yes. I mean, Chris, we have prior authorization for the 1 million shares right now. I think as you -- as you've seen the number of shares that we trade and are flowed and just kind of the rules around where shares to be bought back, we feel like that's enough for right now. Obviously, if we see that trend differ, we can go back to the board for additional authorization. But this allows us to start the process immediately.

Chris Mooney

Okay. A series of kind of random questions. The CapEx that you're spending on the new headquarters, is that being expensed? Or is it being capitalized?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

It will all go into service this quarter. Right now, it's in WIP. But there is a portion that's sort of in cash paid, so that's why you see it in the cash flow statement. And then the -- it will all go in service, and you'll start seeing the depreciation expense probably start in December or early January.

Chris Mooney

Okay. And the CapEx, could you give me the number again on how much you have spent of the CapEx (inaudible) plan this year?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

So the entire plan was $13 million...

Chris Mooney

Is that $7.8 million?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Right. So the entire plan was $13 million, we've spent $7.8 million.

Chris Mooney

And why don't you break that out between the building and operations.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Yes. Of the $7.8 million, approximately $3.8 million is to the Statler, the new headquarters right now. And the rest of that will be coming through in the fourth quarter.

Chris Mooney

Okay. And the cash balance currently? I think you said that, which I didn't write down because I wasn't expecting it.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

$65 million.

Chris Mooney

Okay. So it -- that means you've closed on the 2 lots?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Yes, we have closed. We closed on one in September, it was fully funded, and we closed on the other two a little over 2 weeks ago and fully funded. Pension contribution has also gone through as well.

Chris Mooney

You have...

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

We have paid the $20 million for the voluntary contribution. That $65 million is a net number.

Chris Mooney

Wow, okay. So we could get back to the old question, what are you going to do with it? But...

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Well so, Chris, you think we should have less on the balance sheet so then we won't have to address this question?

Chris Mooney

Well, Jim, I had you for a while.

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

No, I'm just having fun. We're having a little fun. Chris, as we've talked about before, we are still very focused on trying to make some acquisitions that will supplement and fill in some of the gaps that we have in our marketing services portfolio that we're offering to customers. And we have been out this whole year with the help of an investment banking firm led by Tim Storer, who is the head of -- was the head of DMV when we bought it, and as you know, heads up Belo and Co for us now, and he's been out looking and -- for the right kind of acquisition. We're probably in a similar space to what we paid for DMV. We're looking in that range. We're not out to bet the farm on anything. But we have some -- identified some companies that we think are very attractive. And we have spoken to our board about it, and we'll talk to them more about it at the December meeting.

Chris Mooney

Okay. So nothing before the end of the year?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

I highly doubt it. I don't think that will happen. I think we need to have some more dialogue with our board in December, and I don't think anything will happen. If it happens at all that quickly. But that remains the priority for the cash that we have today on the balance sheet.

Chris Mooney

Okay. Katy, when you addressed the lots several conference calls ago, you had noted that you -- I believe you thought they would have a value of $15 million to $20 million. So $21.3 million is nice to see. Jim, I think you had given a punt that the headquarters at $25 million to $30 million or more, you still feel comfortable with that range?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Yes, I feel comfortable with that range. As we've said, we haven't put the property up for sale yet. But Katy and Chris and others have been doing a lot of real due diligence to get us to a place where we can make a decision quickly after we move in, and we hope to be moved in by the end of this year. Katy tells me that every week, and we're going to get started. And I think we'll actually be fully out of this building, at least all the employees out by the end of the year, which would be welcome. I think everybody is looking forward to that. And then that gives us the opportunity to really make a decision about how we proceed with this building. Nothing in our due diligence has done anything to discourage us from that number that you threw out.

Chris Mooney

Yes, and it -- certainly, there's a lot of activity in Downtown Dallas. In the entire -- the North Texas region.

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Yes, I will tell you that Katy has done a marvelous job with these 3 parking lots. Honestly, I think she has sold them to some of the highest square-foot prices that we've seen in Downtown Dallas. And maybe we'll be as fortunate here with this building, but we'll just have to wait and see.

Chris Mooney

Can you give us any indication not necessarily of who but what those lots are going to become?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

The lots right now, no. Two of them right now are parking lots already. One is an open plaza. What the buyers are going to do with that, I haven't been involved in those discussions. But 2 of them are active parking lots today.

Chris Mooney

Yes, okay. On the digital side of the business, the 20% growth, if I recall correctly, the year-over-year number from the second quarter was a 40% number.

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

I think it may have been even a little higher than that, but I think is in the 40% to 50% range.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Of course you're talking about DMV specifically?

Chris Mooney

Yes, yes.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

That was the number. I mean -- and here is what I would say about that, I think the third quarter, we're not, unlike a lot of the other industry that sees seasonality in the third quarter, especially when you're starting to see tons of vacations and people out and about. So I think the third quarter number, while less than the second quarter, not seeing anything from a trend perspective on that or anything to present concern.

Chris Mooney

Okay. And just a random question. You all had lost a number of subscribers in the fourth quarter, and perhaps, right after the fourth quarter due to, and my guess is, some unhappiness amongst the subscriber base in the presidential election. You -- have you been able to recover any of those? Are you picking up anything new from that?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

We picked -- we followed the -- those subscribers that told us that they canceled because of our recommendation of Hillary Clinton for President. And we have gotten back some of them, but it's, I would say, it's less than 20% of those that we have been specifically identified and specifically identified as coming back.

Operator

(Operator Instructions) Our next question is from Barry Lucas from Gabelli & Company.

Barry Lewis Lucas - *G. Research, LLC - Senior Analyst*

Jim, maybe -- or Katy, just refresh our memory, is there anything left in the real estate portfolio other than the headquarters building?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

The only other land , I mean, building that we own is our printing facility up in North Dallas. It's something about 25 acres, we own that and the printing facility. But again, that is -- not only do we do print our own paper but we have a number of commercial printing arrangements that we print out of there as well.

Barry Lewis Lucas - *G. Research, LLC - Senior Analyst*

Is there a way, if you go back and look at purchase price of DMV and what it's done for you, to provide a return on investment?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

I think there'd be 2 things we'd have to do with that, Barry. I think, one, we knew when we bought the DMV that it was going to be accretive on its own basis. But I think the real opportunity for it has been the cross sale opportunity and the top line revenue growth that we've been able to leverage without increasing the expense base. What I would say if I had to, and I don't have an analysis in front of me, but if I had to kind of put a peg on kind of what the return on investment would be, I would say it's definitely in the double digit, continues to accelerate as we continue to see the increase in sales from the DMV -- from the [TDMN] sales force going into DMV. But I don't have an exact percentage for you, but it has been accretive.

Barry Lewis Lucas - *G. Research, LLC - Senior Analyst*

And significantly ahead of your cost to cap?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Absolutely.

Barry Lewis Lucas - *G. Research, LLC - Senior Analyst*

Okay. You talked a little bit about trend and the sequential slowdown to -- in digital more being seasonal than anything else. But as you look at the trend, I mean, you head maybe towards the dot, when do those gains, assuming they are sustainable, outweigh print the coin. So when is the -- when might you think we reach an inflection point on the current base of business, without any additional M&A?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Yes, Barry, we haven't actually projected that out in the way that you just described it. We've seen a couple of quarters, one last year, which was the fourth quarter, where we had an unexpectedly aggressive decline in print, which causes 2 different things to happen. One, it makes it more difficult to outrun that decline rate during the quarter or during the year. But as time goes on, it depletes the amount of revenue that we receive from print, and therefore, makes that easier long term to offset. I'll tell you what we'll do, we're kind of thinking along the same line. And I'll talk to Katy, and maybe at a future call, we might try to give some guidance around that. It's a little bit tricky because we don't have the experience with acquisitions like DMV that we might had if we were doing what other newspaper companies have been doing, buying up more newspapers. So let us go take a look at it and see if we can come up with something that isn't -- that we feel confident enough to give you some information around.

Barry Lewis Lucas - *G. Research, LLC - Senior Analyst*

All right, that's fair. Last one for me would be the job you've done on expense reductions is very credible and -- but going forward, as we look at the business, how much room do you think you have left to run?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Barry, this is the perennial question and we get it asked all the time. We ask ourselves all the time. I think the best thing that I can say is that we have continued to be able to take our expenses down, aligned with the declines in the revenue and still maintain the strength of our franchise. I think that both our digital -- what we publish digitally is a very strong product, and I think we can say that particularly because we're now seeing a great growth in paid digital subscriptions. We're putting things out there that people in this area aren't getting from other news providers, and therefore, they're willing to pay for it. We also still have a very strong print franchise. We publish a very large paper by most metro standards today in terms of number of pages and news columns. We're still at 48 inches in width and not 44, and we're proud of that because I think it helped us maintain that franchise and retain both a good number of subscribers, and we're probably among the 3 or 4 highest-priced metros in the country. And I think it's because of the quality of what we put out. So we're going to continue to demonstrate the kind of expense management that we need to, to align the publishing, particularly the print publishing revenues along with an expense that keeps that business profitable. And today, it is still a profitable contributor to our overall business.

Someday, that -- we'll hit that wall. I don't know when that is. It's certainly closer than it was last year and the year before and the year before because we've taken a lot of expense out, as you noted. But we're still confident that we can have a profitable publishing business by doing both expense management as well as now trying to grow digital subscribers, which we -- that falls in the segment of our business that is under publishing, and we think that's going to be a real contributor both not only to revenue but also to profitability because of the high margin involved in adding 1 more digital subscriber has very little expense associated with it. So I'm hoping to see some improvement in the sort of profile of profitability of the publishing business as we continue to build our digital subscriber base.

Barry Lewis Lucas - *G. Research, LLC - Senior Analyst*

All right. I misspoke. Let me throw one more out. I think you lapped the cover price increase in the fourth quarter. Again, if you think about room to run more or a less the city of demand. Maybe you could talk a little bit about the plans for circulation price?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Yes, well, on the home delivery side, as you know, we continue to employ the services of the -- Mather company, which helps us segment our home subscribers into different levels of elasticity around the opportunity to price them. And we continue to do that, so that some subscribers will see a higher price increase than others, some may see none at all. But I -- we know we still have some headroom on that basis. And of course, every sequential year, you may pick up a little more of that headroom that you used up the year before. On the single copy side, we've had a consistent price in Sunday delivery for a long time. It's probably time to take a look at that. Single copy was we mentioned -- I'm sorry, daily single copy, as we mentioned, we increased last year at this time. So if we do anything on the single copy side, it'd be probably along the Sunday product, but we haven't made that final decision just yet.

Operator

Our next question is from David Cohen from Minerva Advisors.

David P. Cohen - *Minerva Advisors LLC - President and Chief Compliance Officer*

So one thing that you haven't really touched on is the thought process that unrealized pension decision. And I'm wondering if you can sort of talk us through the decision to do anything at all, number one, and then the decision to do it at the level that you did it rather than to sort of wait and see if higher interest rates sailed about. So I'd love to hear the thoughts that went into that.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Sure, David. I'll give you my thoughts and then Jim could add. When we looked at the pension this year, we've consistently, every year, tried to identify ways to continue to de-risk the pension. And we've been successful not only with the program over the last several years of rolling over and letting people cash out. But the opportunity to actually segment a portion of our retirees and to de-risk that by transferring the liability to an insurance company was something we started discussing this year. As you know, the market and the return on assets right now is at an all-time high. When we looked at the ability in the third quarter to not only utilize some cash on our balance sheet but actually looking to utilize some of the plan assets, and the actual -- the earnings that we had made on those, it made financial sense. We were able to segment a portion of the retirees. We took out 1/3 -- we took out 36% of the retirees, which was a great move for them. They're with a -- the top insurance provider in the country for transactions like this. And it -- again, it allowed us to continue to push out any mandatory pension contributions. I think the other thing with this is, by taking advantage of it in the third quarter, we actually reduced our pension benefit fees that we would've paid this year. That would've been $1.3 million, we saved $0.5 million on that and took it down to under $800,000. So I think when you look at it from a return perspective and how to maximize the value of the cash that we were able to do and take care of an obligation, I mean, I look at the pension liability, and while people may say, well, it's not really debt, it really is. And I look at it that way and I know many other do. So it's really an obligation that we have. We took advantage of the returns that we had earned through the third quarter of this year, some cash on the balance sheet, and we're successful in making that transfer. And I think, again, overall, it took down the PBGC fees, which were great. That'll be an ongoing savings, which will continue to add to the plan assets. Our funded plans status after this transaction is now at 83%, which is, again, from an S&P perspective, really where the -- where everyone is from the median. And in my opinion, I think now the pension, it kind of goes on autopilot. And it's something that we've taken care of. And again, if all things hold constant, we're not looking at another contribution for over 6 years. And so I think that's a good outcome for everyone involved, including the retirees.

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

David, I'll just add that taking care of our retired employees, who have a portion of their livelihood tied to these pensions, is a high priority for our board. It is for them as much of a debt obligation as it is a moral obligation. And with the assets having such a great run of return, credited to Katy and the rest of the Pension Investment Committee, it was the right time we felt to harvest some of those gains and help de-risk the pension plan. We took the $20 million, which, as you probably noted, was just about the same amount of money that we got from selling the parking lots. So we were able to, basically, maintain the kind of cash that we have had for the first half of the year on the balance sheet in that low $60 million range.

And as Katy said, we've kind of taken the pension plan for us off the table. Also, look, we've been waiting around for interest rates to go up for years and years now. And yes, we ended up with a large market correction before those interest rates went up, which might also then cause those interest rates to go back down. We might've said we missed an opportunity to harvest some of these gains that we've seen in the assets in the pension plan. So it was, for us, the -- a timing call to do something that we think is important to do and to indicate to us how much flexibility we now have to go out and make some acquisitions using the cash we have on the balance sheet, which we think will then drive greater performance for our company through operations.

David P. Cohen - *Minerva Advisors LLC - President and Chief Compliance Officer*

And you guys didn't mention in your comments, right now, the tax implications. I assume this shields more than just the parking lot sales going forward, right?

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

It does. So the pension contribution of $20 million is fully tax-deductible. The parking lot gains, as I mentioned, were about $13 million, so it fully offsets that. We are in an NOL-generating position, as you know. And from a capital loss perspective, that is something that we would be able to continue to utilize in the future and then on operating losses as well. So I think we have some flexibility from a tax perspective. I think the next question would be, especially around the building, if we make a decision to sell this property. And the answer is, yes, that these losses in capital, from a loss perspective, would be able to continue to help offset that.

Operator

And at this time, there are no further questions. Thank you. Please continue.

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Okay. If there are no further questions, we want to thank everybody for being on the call. And we look forward to talking to you again in the new year.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Thank you. Thank you, Lois.

Operator

Thank you. And ladies and gentlemen, this conference will be made available for replay after 11 a.m. today through November 7. You may access the AT&T Executive Replay System at any time by dialing 1 (800) 475-6701 and entering the access code 431356. International participants can dial 320-365-3844. That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.
