

Dolan Co.
Form 10-Q
November 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended: September 30, 2013

OR

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

For the Transition Period From _____ to _____.

Commission File Number: 001-33603

The Dolan Company

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
222 South Ninth Street, Suite 2300,
Minneapolis, Minnesota 55402
(Address, including zip code, of registrant's principal executive offices)
(612) 317-9420
(Registrant's telephone number, including area code)

43-2004527
(I.R.S. Employer
Identification 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 web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

On September 30, 2013, there were 30,860,367 shares of the registrant's common stock outstanding.

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	September 30, 2013	December 31, 2012
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,813	\$ 3,509
Accounts receivable, including unbilled services (net of allowances of \$1,370 and \$1,809 as of September 30, 2013, and December 31, 2012, respectively)	26,006	60,300
Unbilled pass-through costs		4,668
Prepaid expenses and other current assets	4,112	3,271
Income tax receivable	2,779	10,823
Current portion of notes receivable	2,575	
Assets held for sale	4,985	
Total current assets	43,270	82,571
Investments	8,267	10,069
Property and equipment, net	11,513	18,091
Finite-lived intangible assets, net	57,271	162,212
Goodwill and indefinite-lived intangible assets	105,457	151,329
Deferred income taxes		23,358
Other assets	955	1,910
Long-term notes receivable, net of current portion	9,513	
Total assets	\$ 236,246	\$ 449,540
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 131,474	\$ 15,162
Accounts payable	12,602	20,860
Accrued pass-through liabilities		10,617
Accrued compensation	5,507	7,941
Accrued liabilities	2,747	5,283
Due to sellers of acquired businesses		5,017
Deferred revenue	7,322	13,278
Total current liabilities	159,652	78,158

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Long-term debt, less current portion	73	150,881
Deferred income taxes	20,497	
Other liabilities	5,724	7,240
Total liabilities	185,946	236,279
Redeemable noncontrolling interest	7,836	7,283
Commitments and contingencies (Note 15)		
Stockholders' equity		
Common stock, \$0.001 par value; authorized: 70,000,000 shares; outstanding: 30,860,367 and 30,955,321 shares as of September 30, 2013, and December 31, 2012, respectively	31	31
Preferred stock, \$0.001 par value; authorized: 5,000,000 shares; Series A: Junior Participating: designated: 5,000 shares; no shares outstanding Series B: designated: 1,600,000 shares; outstanding: 700,000 shares as of September 30, 2013, no shares as of December 31, 2012 Series C: Junior Participating: designated: 50,000 shares; no shares outstanding	1	
Other comprehensive loss, net of tax	(157)	(867)
Additional paid-in capital	318,815	301,956
Accumulated deficit	(264,356)	(88,285)
Total The Dolan Company stockholders' equity	54,334	212,835
Noncontrolling interest	(11,870)	(6,857)
Total stockholders' equity	42,464	205,978
Total liabilities and stockholders' equity	\$ 236,246	\$ 449,540

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenues				
Professional Services	\$ 19,885	\$ 27,437	\$ 69,635	\$ 63,152
Business Information	15,575	17,288	47,949	53,313
Total revenues	35,460	44,725	117,584	116,465
Operating expenses				
Direct operating: Professional Services	8,798	10,426	30,651	25,936
Direct operating: Business Information	5,564	6,125	17,660	19,155
Selling, general and administrative	16,103	18,373	49,074	52,673
Amortization	2,228	2,376	6,682	7,298
Depreciation	1,398	1,207	4,224	3,628
Fair value and other adjustments on earnout liabilities and due to seller		(1,514)	(5,021)	(11,576)
Impairment of long-lived assets and goodwill	35,414	9,317	35,414	9,317
Total operating expenses	69,505	46,310	138,684	106,431
Equity in (loss) earnings of affiliates	(132)	396	(227)	1,420
Operating (loss) income	(34,177)	(1,189)	(21,327)	11,454
Non-operating expense				
Interest expense, net of interest income	(2,719)	(2,202)	(7,737)	(6,266)
(Loss) income from continuing operations before income taxes	(36,896)	(3,391)	(29,064)	5,188
Income tax benefit (expense)	10,132	1,034	(40,892)	(2,499)
(Loss) income from continuing operations	(26,764)	(2,357)	(69,956)	2,689
Discontinued operations, net of tax	(1,052)	(111,093)	(109,242)	(110,772)
Net loss	(27,816)	(113,450)	(179,198)	(108,083)
Less: Net loss attributable to noncontrolling interests	340	9,946	4,119	9,666
Net loss attributable to The Dolan Company	\$ (27,476)	\$ (103,504)	\$ (175,079)	\$ (98,417)
Income allocated to preferred shares	(372)		(992)	

Net loss allocable to common shares	\$ (27,848)	\$ (103,504)	\$ (176,071)	\$ (98,417)
Earnings (loss) per share basic and diluted:				
(Loss) income from continuing operations attributable to The Dolan Company	\$ (0.87)	\$ 0.25	\$ (2.16)	\$ 0.41
Discontinued operations attributable to The Dolan Company	(0.03)	(3.66)	(3.59)	(3.66)
Income allocated to preferred shares	(0.01)		(0.03)	
Net loss attributable to The Dolan Company	(0.91)	(3.41)	(5.78)	(3.25)
Weighted average shares outstanding basic and diluted	30,537	30,327	30,445	30,260

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Comprehensive Loss**

(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net loss attributable to The Dolan Company	\$ (27,476)	\$ (103,504)	\$ (175,079)	\$ (98,417)
Other comprehensive income (loss):				
Unrealized gain on interest rate swap	217	69	710	203
Comprehensive loss attributable to The Dolan Company	\$ (27,259)	\$ (103,435)	\$ (174,369)	\$ (98,214)

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Stockholders Equity**

(in thousands, except share data)

	The Dolan Company Stockholders Equity							Total	
	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Other Comprehensive Loss		Noncontrolling Interest
Balance at December 31, 2011	30,576,597	\$ 30		\$	\$ 294,476	\$ 13,471	\$ (1,285)	\$	\$ 306,692
Net loss attributable to The Dolan Company						(101,756)			(101,756)
Net loss attributable to noncontrolling interest								(6,857)	(6,857)
Change in noncontrolling interest in NDeX					791				791
Unrealized gain on interest rate swap, net of tax							418		418
Issuance of common stock pursuant to the exercise of stock options	13,500				30				30
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	365,224		1						