DAILY JOURNAL CORP
Form 10-Q
February 14, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2006

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 0-14665

DAILY JOURNAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina **(State or other jurisdiction of incorporation or organization)**	**95-4133299** **(I.R.S. Employer Identification No.)**
915 East First Street **Los Angeles, California**	**90012-4050**

(Address of principal executive offices) **(Zip code)**

(213) 229-5300

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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: x No: ¨

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

Large Accelerated Filer: ¨ Accelerated Filer: ¨ Non-accelerated Filer: x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Class	**Outstanding at January 31, 2007**
Common Stock, par value $ .01 per share	1,500,374 shares

Table of Contents

DAILY JOURNAL CORPORATION

INDEX

Table of Contents

PART I

Item 1. FINANCIAL STATEMENTS

DAILY JOURNAL CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31 2006 (Unaudited)	September 30 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 613,000	$ 617,000
U.S. Treasury Notes and Bills	8,947,000	8,953,000
Accounts receivable, less allowance for doubtful accounts of $200,000 at December 31, 2006 and September 30, 2006	4,731,000	4,490,000
Inventories	43,000	46,000
Prepaid expenses and other assets	248,000	132,000
Deferred income taxes	1,677,000	1,710,000
Total current assets	16,259,000	15,948,000
Property, plant and equipment, at cost		
Land, buildings and improvements	12,834,000	12,922,000
Furniture, office equipment and computer software	3,680,000	3,868,000
Machinery and equipment	1,942,000	1,907,000
	18,456,000	18,697,000
Less accumulated depreciation	(6,683,000)	(6,780,000)
	11,773,000	11,917,000
U.S. Treasury Notes	6,979,000	6,977,000
Deferred income taxes	849,000	861,000
	$ 35,860,000	$ 35,703,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 4,191,000	$ 4,156,000
Accrued liabilities	1,758,000	2,459,000
Income taxes	541,000	382,000
Notes payable current portion	199,000	197,000
Deferred subscription revenue and other revenues	6,456,000	6,493,000
Total current liabilities	13,145,000	13,687,000
Long term liabilities		
Accrued liabilities	1,150,000	1,030,000
Notes payable	3,961,000	4,011,000
Total long term liabilities	5,111,000	5,041,000

Commitments and contingencies (Notes 7 and 8)		
Shareholders equity		
Preferred stock, $.01 par value, 5,000,000 shares authorized and no shares issued		
Common stock, $.01 par value, 5,000,000 shares authorized; 1,500,425 and 1,500,485 shares, at December 31, 2006 and September 30, 2006, respectively, outstanding	15,000	15,000
Other paid-in capital	1,907,000	1,908,000
Retained earnings	16,588,000	15,958,000
Less 47,445 treasury shares, at December 31, 2006 and September 30, 2006, at cost	(906,000)	(906,000)
Total shareholders equity	17,604,000	16,975,000
	$ 35,860,000	$ 35,703,000

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended December 31	
	2006	**2005**
Revenues		
Advertising	$ 4,097,000	$ 3,918,000
Circulation	2,210,000	2,370,000
Information systems and services	879,000	927,000
Advertising service fees and other	826,000	682,000
	8,012,000	7,897,000
Costs and expenses		
Salaries and employee benefits	4,222,000	4,122,000
Newsprint and printing expenses	559,000	573,000
Other outside services	821,000	869,000
Postage and delivery expenses	393,000	407,000
Depreciation and amortization	239,000	196,000
Other general and administrative expenses	858,000	807,000
	7,092,000	6,974,000
Income from operations	920,000	923,000
Other income and (expense)		
Interest income	193,000	131,000
Interest expense	(73,000)	(79,000)
Income before taxes	1,040,000	975,000
Provision for income taxes	410,000	380,000
Net income	$ 630,000	$ 595,000
Weighted average number of common shares outstanding - basic and diluted	1,453,009	1,453,153
Basic and diluted net income per share	$ .43	$ .41

See accompanying Notes to Consolidated Financial Statements.

4 of 14

Table of Contents

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended December 31 2006	2005
Cash flows from operating activities		
Net income	$ 630,000	$ 595,000
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	239,000	196,000
Deferred income taxes	45,000	82,000
Discount earned on U.S. Treasury Bills and Notes	(28,000)	(38,000)
Changes in assets and liabilities		
(Increase) decrease in current assets		
Accounts receivable, net	(241,000)	625,000
Inventories	3,000	21,000
Prepaid expenses and other assets	(116,000)	(41,000)
Increase (decrease) in current liabilities		
Accounts payable	35,000	126,000
Accrued liabilities	(581,000)	(796,000)
Income taxes	159,000	(70,000)
Deferred subscription and other revenues	(37,000)	(694,000)
Cash provided by operating activities	108,000	6,000
Cash flows from investing activities		
Purchases of U.S. Treasury Notes and Bills	(1,468,000)	(591,000)
Maturities and sales of U.S. Treasury Notes and Bills	1,500,000	796,000
Purchases of property, plant and equipment, net	(94,000)	(370,000)
Net cash used for investing activities	(62,000)	(165,000)
Cash flows from financing activities		
Payment of loan principals	(48,000)	(29,000)
Purchase of common stock	(2,000)	
Cash used for financing activities	(50,000)	(29,000)
Increase in cash and cash equivalents	(4,000)	(188,000)
Cash and cash equivalents		
Beginning of period	617,000	471,000
End of period	$ 613,000	$ 283,000
Interest paid during period	$ 73,000	$ 79,000

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

DAILY JOURNAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - The Corporation and Operations

The Daily Journal Corporation (the Company) publishes newspapers and web sites covering California, Arizona and Nevada, as well as the California Lawyer and 8-K magazines, and produces several specialized information services. Sustain Technologies, Inc. (Sustain), a 93% owned subsidiary as of December 31, 2006, has been consolidated since it was acquired in January 1999. Sustain supplies case management software systems and related products to courts and other justice agencies, including district attorney offices and administrative law organizations. These courts and agencies use the Sustain family of products to help manage cases and information electronically and to interface with other critical justice partners. Sustain s products are designed to help users manage electronic case files from inception to disposition, including all aspects of calendaring and accounting, report and notice generation, the implementation of standards and business rules and other corollary functions. Essentially all of the Company s operations are based in California, Arizona, Colorado and Nevada.

Note 2 - Basis of Presentation

In the opinion of the Company, the accompanying interim unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of its financial position as of December 31, 2006, the results of operations for the three-month periods ended December 31, 2006 and 2005 and its cash flows for the three months ended December 31, 2006 and 2005. The results of operations for the three months ended December 31, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

Certain reclassifications of previously reported amounts have been made to conform to the current year s presentation.

Note 3 - Basic and Diluted Income Per Share

The Company does not have any common stock equivalents, and therefore the basic and diluted income per share are the same.

Table of Contents

Note 4 - Operating Segments

Summarized financial information concerning the Company s reportable segments is shown in the following table:

	Reportable Segments		Total Results
	Traditional Business	Sustain	for both Segments
Three months ended December 31, 2006			
Revenues	$ 7,133,000	$ 879,000	$ 8,012,000
Income (loss) before taxes	1,265,000	(225,000)	1,040,000
Total assets	33,383,000	2,477,000	35,860,000
Capital expenditures	94,000		94,000
Depreciation and amortization	231,000	8,000	239,000
Income tax benefit (provision)	(500,000)	90,000	(410,000)
Net income (loss)	765,000	(135,000)	630,000
Three months ended December 31, 2005			
Revenues	$ 6,970,000	$ 927,000	$ 7,897,000
Income (loss) before taxes	1,172,000	(197,000)	975,000
Total assets	30,565,000	2,403,000	32,968,000
Capital expenditures	345,000	25,000	370,000
Depreciation and amortization	186,000	10,000	196,000
Income tax benefit (provision)	(460,000)	80,000	(380,000)
Net income (loss)	712,000	(117,000)	595,000

Note 5 - Revenue Recognition

Proceeds from the sale of subscriptions for newspapers, court rule books and other publications and other services are recorded as deferred revenue and are included in earned revenue only when the services are provided, generally over the subscription or lease term. Advertising revenues are recognized when advertisements are published and are net of commissions.

The Company recognizes revenues from both the lease and sale of software products. Revenues from leases of software products are recognized over the life of the lease while revenues from software product sales are recognized normally upon delivery, installation or acceptance pursuant to a signed agreement. Revenues from annual maintenance contracts generally call for the Company to provide software updates and upgrades to customers and are recognized ratably over the maintenance period. Consulting and other services are recognized as performed or upon acceptance by the customers.

Note 6 - Income Taxes

On a pretax profit of $1,040,000 for the three months ended December 31, 2006, the Company recorded a tax provision of $410,000 using approximately the statutory rate. On a pretax profit of $975,000 for the three months ended December 31, 2005, the Company recorded a tax provision of only $380,000, which was lower than the amount computed under the statutory rate, because it was able to utilize the state tax benefits from Sustain-segment operating loss carry-forwards. (Still under review by the Internal Revenue Service is the status of the Research and Development credit of $800,000 that was utilized by the Company in prior years. Any adjustment to the credit amount would result in an additional federal income tax assessment, although the amount of any possible adjustment is not known at this time.)