DAILY JOURNAL CORP
Form 10-Q
August 09, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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	95-4133299
(State or other jurisdiction of incorporation or organization)	(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 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: X 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 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: X
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: 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 July 31, 2016
Common Stock, par value $ .01 per share	1,380,746 shares

DAILY JOURNAL CORPORATION

INDEX

2

PART I

Item 1. FINANCIAL STATEMENTS

DAILY JOURNAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30 2016	September 30 2015
ASSETS		
Current assets		
Cash and cash equivalents	$10,362,000	$15,617,000
Marketable securities at fair value, including common stocks of $153,432,000 and bonds of $7,818,000 at June 30, 2016 and common stocks of $158,705,000 and bonds of $7,336,000 at September 30, 2015	161,250,000	166,041,000
Accounts receivable, less allowance for doubtful accounts of $250,000 at June 30, 2016 and September 30, 2015	5,730,000	5,673,000
Inventories	47,000	48,000
Prepaid expenses and other assets	614,000	684,000
Income tax receivable	668,000	765,000
Total current assets	178,671,000	188,828,000
Property, plant and equipment, at cost		
Land, buildings and improvements	16,284,000	12,773,000
Furniture, office equipment and computer software	2,657,000	2,655,000
Machinery and equipment	1,864,000	1,864,000
	20,805,000	17,292,000
Less accumulated depreciation	(8,689,000)	(8,335,000)
	12,116,000	8,957,000
Intangibles, net	9,213,000	12,990,000
Goodwill	13,400,000	13,400,000
Deferred income taxes, net	6,522,000	4,021,000
	$219,922,000	$228,196,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$2,659,000	$4,212,000
Accrued liabilities	2,981,000	2,919,000
Note payable collateralized by real estate	109,000	---
Deferred subscriptions	3,565,000	3,474,000
Deferred installation contracts	6,618,000	7,820,000
Deferred maintenance agreements and others	6,228,000	6,815,000
Deferred income taxes, net	39,352,000	40,641,000

Total current liabilities	61,512,000	65,881,000
Long term liabilities		
Investment margin account borrowings	29,493,000	29,493,000
Note payable collateralized by real estate	2,099,000	---
Deferred maintenance agreements	92,000	551,000
Income tax payable	2,805,000	2,991,000
Accrued interest and penalty for uncertain and unrecognized tax benefits	708,000	633,000
Accrued liabilities	47,000	47,000
Total long term liabilities	35,244,000	33,715,000
Commitments and contingencies (Note 10)	---	---
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; 1,805,053 shares issued, including 424,307 treasury shares, at June 30, 2016 and September 30, 2015	14,000	14,000
Additional paid-in capital	1,755,000	1,755,000
Retained earnings	59,030,000	59,111,000
Accumulated other comprehensive income	62,367,000	67,720,000
Total shareholders' equity	123,166,000	128,600,000
	$219,922,000	$228,196,000

See accompanying Notes to Consolidated Financial Statements

3

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Three months ended June 30	
	2016	2015
Revenues		
Advertising	$2,715,000	$2,701,000
Circulation	1,467,000	1,445,000
Advertising service fees and other	720,000	702,000
Licensing and maintenance fees	3,679,000	3,315,000
Consulting fees	748,000	791,000
Other public service fees	1,009,000	1,540,000
	10,338,000	10,494,000
Costs and expenses		
Salaries and employee benefits	6,860,000	6,357,000
Other outside services	913,000	827,000
Postage and delivery expenses	279,000	346,000
Newsprint and printing expenses	243,000	335,000
Depreciation and amortization	1,445,000	1,366,000
Other general and administrative expenses	2,380,000	2,408,000
	12,120,000	11,639,000
Loss from operations	(1,782,000)	(1,145,000)
Other income (expense)		
Dividends and interest income	1,277,000	1,177,000
Other income and capital gains	16,000	23,000
Interest expense	(108,000)	(56,000)
Interest expense accrued for uncertain and unrecognized tax benefits	(26,000)	(26,000)
Loss before income taxes	(623,000)	(27,000)
Benefit from income taxes	285,000	60,000
Net (loss) income	$(338,000)	$33,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net (loss) income per share	$(0.25)	$.02
Comprehensive (loss) income		
Net (loss) income	$(338,000)	$33,000
Net (decrease) increase in unrealized appreciation of marketable securities (net of taxes)	(1,222,000)	5,277,000
	$(1,560,000)	$5,310,000

See accompanying Notes to Consolidated Financial Statements.

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Nine months ended June 30 2016	2015
Revenues		
Advertising	$7,382,000	$7,954,000
Circulation	4,431,000	4,429,000
Advertising service fees and other	2,014,000	2,037,000
Licensing and maintenance fees	11,433,000	10,752,000
Consulting fees	3,788,000	3,401,000
Other public service fees	3,547,000	4,636,000
	32,595,000	33,209,000
Costs and expenses		
Salaries and employee benefits	20,537,000	19,740,000
Other outside services	2,590,000	2,509,000
Postage and delivery expenses	857,000	990,000
Newsprint and printing expenses	679,000	935,000
Depreciation and amortization	4,288,000	4,093,000
Other general and administrative expenses	6,964,000	7,414,000
	35,915,000	35,681,000
Loss from operations	(3,320,000)	(2,472,000)
Other income (expense)		
Dividends and interest income	3,013,000	2,865,000
Other income and capital gains	46,000	55,000
Interest expenses	(270,000)	(168,000)
Interest expense accrued for uncertain and unrecognized tax benefits	(75,000)	(70,000)
(Loss) income before taxes	(606,000)	210,000
Benefit from income taxes	525,000	760,000
Net (loss) income	$(81,000)	$970,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net (loss) income per share	$(0.06)	$.70
Comprehensive (loss) income		
Net (loss) income	$(81,000)	$970,000
Net (decrease) increase in unrealized appreciation of marketable securities (net of taxes)	(5,353,000)	833,000
	$(5,434,000)	$1,803,000

See accompanying Notes to Consolidated Financial Statements.

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended June 30 2016	2015
Cash flows from operating activities		
Net (loss) income	$(81,000)	$970,000
Adjustments to reconcile net (loss) income to net cash provided by operations		
Depreciation and amortization	4,288,000	4,093,000
Gains on sales of marketable securities	---	(4,000)
Deferred income taxes	(512,000)	(735,000)
Discounts earned on bonds	(2,000)	(2,000)
Changes in assets and liabilities		
(Increase) decrease in current assets		
Accounts receivable, net	(57,000)	1,912,000
Inventories	1,000	(12,000)
Prepaid expenses and other assets	70,000	284,000
Income tax receivable	97,000	639,000
Increase (decrease) in liabilities		
Accounts payable	(1,553,000)	(230,000)
Accrued liabilities	137,000	325,000
Income taxes	(186,000)	(185,000)
Deferred subscriptions	91,000	154,000
Deferred maintenance agreements and others	(1,046,000)	(2,367,000)
Deferred installation contracts	(1,202,000)	(313,000)
Net cash provided by operating activities	45,000	4,529,000
Cash flows from investing activities		
Sales of marketable securities	---	4,044,000
Purchases of marketable securities	(3,838,000)	(10,977,000)
Purchases of property, plant and equipment, including the Logan Utah office building	(3,670,000)	(433,000)
Net cash used for investing activities	(7,508,000)	(7,366,000)
Cash flows from financing activities		
Note payable collateralized by real estate	2,234,000	--- -
Payment of loan principal	(26,000)	--- -
Net cash provided by financing activities	2,208,000	--- -
Decrease in cash and cash equivalents	(5,255,000)	(2,837,000)
Cash and cash equivalents		

Beginning of period	15,617,000	15,410,000
End of period	$10,362,000	$12,573,000
Interest paid during period	$254,000	$168,000
Net income taxes refunded during period	$(11,000)	$(547,000)

See accompanying Notes to Consolidated Financial Statements.

DAILY JOURNAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - The Corporation and Operations

Daily Journal Corporation (the “Company”) publishes newspapers and web sites covering California and Arizona and produces several specialized information services. It also serves as a newspaper representative specializing in public notice advertising.

Journal Technologies, Inc. (“Journal Technologies”), a wholly-owned subsidiary, includes as of October 1, 2014, the combined operations of Sustain Technologies, Inc. (“Sustain”), a wholly-owned subsidiary since 2008; New Dawn Technologies, Inc. (“New Dawn”), acquired in December 2012; and ISD Technologies, Inc. (“ISD”), acquired in September 2013. Journal Technologies supplies case management software systems and related products to courts, prosecutor and public defender offices, probation departments and other justice agencies, including administrative law organizations, city and county governments and bar associations. These organizations use the Journal Technologies family of products to help manage cases and information electronically, to interface with other critical justice partners and to extend electronic services to bar members and the public, including a website to pay traffic citations online. These products are licensed to more than 500 organizations in 42 states and internationally.

Essentially all of the Company’s operations are based in California, Arizona and Utah.

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 presentation of its financial position as of June 30, 2016, its results of operations for the three- and nine-month periods ended June 30, 2016 and 2015 and its cash flows for the nine-month periods ended June 30, 2016 and 2015. The results of operations for the three and nine months ended June 30, 2016 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, 2015.

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

Note 3 - Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This update requires that all leases be recognized by lessees on the balance sheet through a right-of-use asset and corresponding lease liability, including today’s operating leases. This standard is required to be adopted for annual periods beginning after December 15, 2018, including interim periods within that annual period, which is the Company’s fiscal year 2020.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606)*: *Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* providing guidance regarding the application of ASU 2014-09 when another party, along with the reporting entity, is involved in providing a good or a service to a customer. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing,* which clarifies the identification of performance obligations and the licensing implementation guidance. In May 2016, the FASB further issued ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients* providing guidance in certain narrow areas and adding some practical expedients. The effective dates for these ASUs, which are the same as the effective date for ASU No. 2014-09, *Revenue from Contracts with Customers*, will be the Company’s fiscal 2018 annual and interim periods.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for the Company’s annual and interim reporting periods beginning January 1, 2020, with early adoption permitted on January 1, 2019.

The Company has not yet evaluated what impact, if any, the adoption of these ASUs may have on its financial condition, results of operations or disclosures.

7

In addition, the Company will evaluate other new accounting pronouncements as detailed in its Annual Report on Form 10-K for the year ended September 30, 2015.

Note 4 - 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.

Note 5 - Intangible Assets

Intangible Assets

	June 30, 2016			September 30, 2015		
	Customer Relationships	Developed Technology	Total	Customer Relationships	Developed Technology	Total
Gross intangible	$22,104,000	$2,525,000	$24,629,000	$22,104,000	$2,525,000	$24,629,000
Accumulated amortization	(13,805,000)	(1,611,000)	(15,416,000)	(10,406,000)	(1,233,000)	(11,639,000)
	$8,299,000	$914,000	$9,213,000	$11,698,000	$1,292,000	$12,990,000

These identifiable intangible assets are being amortized over five years or less for financial statement purposes due to the short life cycle of technology that customer relationships depend on, and over a 15-year period on a straight-line basis for tax purposes. The intangible amortization expenses were $3,777,000 and $1,259,000 for the nine- and three-month periods ended June 30, 2016, respectively, as compared with $3,671,000 and $1,223,000 in the prior year periods.

Note 6 – Goodwill

The Company accounts for goodwill in accordance with Accounting Standards Codification (ASC) 350, *Intangibles — Goodwill and Other*. Goodwill, which is not amortized for financial statement purposes, is amortized over a 15-year period for tax purposes, but evaluated for impairment annually, or whenever events or changes in circumstances indicate that the value may not be recoverable. Considered factors for potential goodwill impairment evaluation with respect to Journal Technologies include the current year's business profitability before intangible amortization, fluctuations of revenues, changes in the marketplace, the status of deferred installation contracts and new business, among other things.

In addition, ASU 2011-08, *Intangible – Goodwill and Others -- Testing Goodwill for Impairment*, allows for the option of performing a qualitative assessment before calculating the fair value of a reporting unit. If it is determined based on qualitative factors that there is no impairment to goodwill, then the fair value of a reporting unit is not needed. If a quantitative analysis is required and the unit's carrying amount exceeds its fair value, then the second step is performed to measure the amount of potential impairment. The Company's annual goodwill impairment analysis in fiscal 2015 did not result in an impairment charge based on the qualitative as