

DAILY JOURNAL CORP
Form 10-Q
August 08, 2018

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, 2018

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)

<u>South Carolina</u>	<u>95-4133299</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

915 East First Street	
<u>Los Angeles, California</u>	<u>90012-4050</u>
(Address of principal executive offices)	(Zip code)
(213) 229-5300	

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(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: 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer: Accelerated Filer:
Non-accelerated Filer: Smaller Reporting Company:
Emerging Growth Company:

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: No:

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

<u>Class</u>	<u>Outstanding at July 31, 2018</u>
Common Stock, par value \$.01 per share	1,380,746 shares

DAILY JOURNAL CORPORATION

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PART I

Item 1. FINANCIAL STATEMENTS

DAILY JOURNAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30 2018	September 30 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$4,974,000	\$3,384,000
Marketable securities at fair value, including common stocks of \$207,499,000 at June 30, 2018, and common stocks of \$220,973,000 and bonds of \$8,292,000 at September 30, 2017	207,499,000	229,265,000
Accounts receivable, less allowance for doubtful accounts of \$200,000 at June 30, 2018 and September 30, 2017	8,312,000	5,358,000
Inventories	53,000	40,000
Prepaid expenses and other current assets	487,000	798,000
Income tax receivable	1,508,000	909,000
Total current assets	222,833,000	239,754,000
Property, plant and equipment, at cost		
Land, buildings and improvements	16,409,000	16,396,000
Furniture, office equipment and computer software	2,858,000	2,724,000
Machinery and equipment	1,818,000	1,799,000
	21,085,000	20,919,000
Less accumulated depreciation	(9,721,000)	(9,292,000)
	11,364,000	11,627,000
Intangibles, net	499,000	3,058,000
Goodwill	13,400,000	13,400,000
Deferred income taxes - Federal	7,717,000	10,652,000
Deferred income taxes - State	2,355,000	2,217,000
	\$258,168,000	\$280,708,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$3,616,000	\$3,049,000
Accrued liabilities	3,473,000	3,112,000
Note payable collateralized by real estate	119,000	115,000
Deferred subscriptions	3,237,000	3,284,000
Deferred installation contracts	3,710,000	5,072,000

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Deferred maintenance agreements and others	11,157,000	9,442,000
Total current liabilities	25,312,000	24,074,000
Long term liabilities		
Investment margin account borrowings	29,493,000	29,493,000
Note payable collateralized by real estate	1,866,000	1,956,000
Deferred maintenance agreements	312,000	759,000
Accrued liabilities	135,000	135,000
Deferred income taxes	39,683,000	64,550,000
Total long term liabilities	71,489,000	96,893,000
Commitments and contingencies (Notes 10 and 11)	---	---
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, 2018 and September 30, 2017	14,000	14,000
Additional paid-in capital	1,755,000	1,755,000
Retained earnings	50,695,000	57,150,000
Accumulated other comprehensive income	108,903,000	100,822,000
Total shareholders' equity	161,367,000	159,741,000
	\$258,168,000	\$280,708,000

See accompanying Notes to Consolidated Financial Statements

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Three months	
	ended June 30	
	2018	2017
Revenues		
Advertising	\$2,375,000	\$2,400,000
Circulation	1,346,000	1,385,000
Advertising service fees and other	724,000	778,000
Licensing and maintenance fees	4,756,000	3,916,000
Consulting fees	940,000	869,000
Other public service fees	866,000	853,000
	11,007,000	10,201,000
Costs and expenses		
Salaries and employee benefits	8,475,000	8,126,000
Outside services	1,012,000	1,116,000
Postage and delivery expenses	217,000	283,000
Newsprint and printing expenses	186,000	224,000
Depreciation and amortization	905,000	1,423,000
Other general and administrative expenses	2,921,000	2,662,000
	13,716,000	13,834,000
Loss from operations	(2,709,000)	(3,633,000)
Other income (expense)		
Dividends and interest income	1,215,000	952,000
Other income	9,000	4,000
Interest expense on note payable collateralized by real estate	(24,000)	(24,000)
Interest expense on margin loans	(173,000)	(115,000)
Loss before income taxes	(1,682,000)	(2,816,000)
Benefit from income taxes	710,000	1,465,000
Net loss	\$(972,000)	\$(1,351,000)
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net loss per share	\$(0.70)	\$(0.98)
Comprehensive (loss) income		
Net loss	\$(972,000)	\$(1,351,000)
Net (decrease) increase in unrealized appreciation of marketable securities (net of taxes)	(7,613,000)	4,258,000
	\$(8,585,000)	\$2,907,000

See accompanying Notes to Consolidated Financial Statements.

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DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Nine months	
	ended June 30	
	2018	2017
Revenues		
Advertising	\$6,700,000	\$6,833,000
Circulation	4,065,000	4,258,000
Advertising service fees and other	1,985,000	2,111,000
Licensing and maintenance fees	13,087,000	11,764,000
Consulting fees	2,147,000	3,027,000
Other public service fees	2,613,000	2,477,000
	30,597,000	30,470,000
Costs and expenses		
Salaries and employee benefits	25,227,000	23,864,000
Outside services	3,095,000	3,183,000
Postage and delivery expenses	650,000	846,000
Newsprint and printing expenses	589,000	663,000
Depreciation and amortization	3,022,000	4,204,000
Other general and administrative expenses	8,541,000	7,462,000
	41,124,000	40,222,000
Loss from operations	(10,527,000)	(9,752,000)
Other income (expense)		
Dividends and interest income	3,722,000	3,491,000
Gains on sales of bonds and capital asset	3,182,000	---
Other income	28,000	25,000
Interest expense on note payable collateralized by real estate	(72,000)	(75,000)
Interest expense on margin loans	(458,000)	(290,000)
Reversal of accrued interest and penalty expense for uncertain and unrecognized tax benefits	---	743,000
Loss before income taxes	(4,125,000)	(5,858,000)
Benefit from income taxes	17,660,000	6,015,000
Net income	\$13,535,000	\$157,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net income per share	\$9.80	\$0.11
Comprehensive income		
Net income	\$13,535,000	\$157,000

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Net (decrease) increase in unrealized appreciation of marketable securities (net of taxes)	(9,356,000)	23,915,000
	\$4,179,000	\$24,072,000

See accompanying Notes to Consolidated Financial Statements.

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DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months	
	ended June 30	
	2018	2017
Cash flows from operating activities		
Net income	\$ 13,535,000	\$ 157,000
Adjustments to reconcile net income to net cash used in operations		
Depreciation and amortization	3,022,000	4,204,000
Deferred income taxes	(17,157,000)	(3,347,000)
Gains on sale of bonds and capital asset	(3,182,000)	---
Discounts earned on bonds	---	(2,000)
Changes in operating assets and liabilities		
(Increase) decrease in current assets		
Accounts receivable, net	(2,954,000)	(942,000)
Inventories	(13,000)	(8,000)
Prepaid expenses and other assets	311,000	(133,000)
Income tax receivable	(599,000)	(66,000)
Increase (decrease) in liabilities		
Accounts payable	567,000	270,000
Accrued liabilities	361,000	(313,000)
Income taxes	---	