

DAILY JOURNAL CORP  
Form 10-Q/A  
January 28, 2015  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2014

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

(Address of principal executive offices)

90012-4050

(Zip code)

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

(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, 2014
Common Stock, par value \$ .01 per share	1,380,746 shares



## Explanatory Note

Daily Journal Corporation (the “Company”) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, which was originally filed on August 18, 2014 (the “Form 10-Q”), to restate certain financial information for the three and nine months ended June 30, 2014 to primarily offset the previously recorded income tax benefit in the Company’s accounting for income taxes in connection with one of its acquisitions in fiscal 2013. Details on the restatement and its impact on the Company’s disclosure controls and procedures are included in Part I, Item 1. Financial Statements, under “Note 2 – Basis of Presentation and Restatement” and Part I, Item 4. Controls and Procedures, respectively.

For convenience of the reader, this Amendment No. 1 sets forth the Form 10-Q in its entirety, as modified and superseded where necessary to reflect the restatement. The following items have been amended as a result of and to reflect the restatement:

Part I – Item 1. Financial Statements;

Part I – Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations;

Part I – Item 4. Controls and Procedures; and

Part II – Item 6. Exhibits

This Amendment No. 1 amends only the portions of the Form 10-Q listed in the sections noted above. This Amendment No. 1 does not reflect events occurring after the original filing date of the Form 10-Q other than those associated with the restatement.

DAILY JOURNAL CORPORATION

INDEX

	Page Nos.
<b>PART I Financial Information</b>	
<b>Item 1. Financial Statements</b>	
Consolidated Balance Sheets - June 30, 2014 and September 30, 2013	
Consolidated Statements of Comprehensive Income (Loss) - Three months ended June 30, 2014 and 2013	5
Consolidated Statements of Comprehensive Income (Loss) - Nine months ended June 30, 2014 and 2013	6
Consolidated Statements of Cash Flows -Nine months ended June 30, 2014 and 2013	7
Notes to Consolidated Financial Statements	8
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	19
<b>Item 4. Controls and Procedures</b>	24
<b>Part II Other Information</b>	
<b>Item 1A. Risk Factors</b>	25
<b>Item 6. Exhibits</b>	26

## PART I

## Item 1. FINANCIAL STATEMENTS

## DAILY JOURNAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30 2014 (Restated)	September 30 2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 14,750,000	\$ 11,338,000
Marketable securities, including common stocks of \$158,630,000 and bonds of \$8,193,000 at June 30, 2014 and common stocks of \$129,699,000 and bonds of \$7,295,000 at September 30, 2013	166,823,000	136,994,000
Accounts receivable, less allowance for doubtful accounts of \$250,000 at June 30, 2014 and September 30, 2013, respectively	6,850,000	6,314,000
Inventories	48,000	56,000
Prepaid expenses and other assets	1,336,000	1,958,000
Income tax receivable	1,418,000	305,000
Total current assets	191,225,000	156,965,000
Property, plant and equipment, at cost		
Land, buildings and improvements	12,861,000	12,847,000
Furniture, office equipment and computer software	2,958,000	2,712,000
Machinery and equipment	2,039,000	2,014,000
	17,858,000	17,573,000
Less accumulated depreciation	(8,716,000 )	(8,343,000 )
	9,142,000	9,230,000
Intangibles, net	18,967,000	22,637,000
Goodwill	13,400,000	13,400,000
Deferred income taxes	2,949,000	858,000
	\$ 235,683,000	\$ 203,090,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,406,000	\$ 4,259,000
Accrued liabilities	3,067,000	4,443,000
Deferred subscriptions	3,145,000	3,534,000
Deferred installation contracts	8,412,000	6,879,000
Deferred maintenance agreements and others	7,321,000	6,864,000
Deferred income taxes, net	43,917,000	32,132,000

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

Total current liabilities	70,268,000	58,111,000
Long term liabilities		
Investment margin account borrowings	29,493,000	29,493,000
Deferred maintenance agreements	211,000	269,000
Income tax payable	3,018,000	---
Accrued interest and penalty for uncertain and unrecognized tax benefits	518,000	---
Accrued liabilities	1,200,000	1,870,000
Total long term liabilities	34,440,000	31,632,000
Commitments and contingencies (Note 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, 2014 and September 30, 2013	14,000	14,000
Additional paid-in capital	1,755,000	1,755,000
Retained earnings	57,121,000	57,670,000
Accumulated other comprehensive income	72,085,000	53,908,000
Total shareholders' equity	130,975,000	113,347,000
	\$235,683,000	\$203,090,000

See accompanying Notes to Consolidated Financial Statements

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three months	
	ended June 30	
	2014	2013
	(Restated)	
Revenues		
Advertising	\$2,976,000	\$3,617,000
Circulation	1,502,000	1,574,000
Advertising service fees and other	771,000	685,000
Information systems and services	5,898,000	3,328,000
	11,147,000	9,204,000
Costs and expenses		
Salaries and employee benefits	6,175,000	5,175,000
Other outside services	822,000	762,000
Postage and delivery expenses	335,000	346,000
Newsprint and printing expenses	368,000	379,000
Depreciation and amortization	1,385,000	635,000
Other general and administrative expenses	2,325,000	1,461,000
	11,410,000	8,758,000
(Loss) income from operations	(263,000 )	446,000
Other income (expense)		
Dividends and interest income	824,000	726,000
Other income	26,000	16,000
Interest and penalty expense accrued for uncertain and unrecognized tax benefits	(518,000 )	---
Interest expense	(56,000 )	(27,000 )
Income before taxes	13,000	1,161,000
(Benefit from) provision for income taxes	(25,000 )	335,000
Net income	\$38,000	\$826,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net income per share	\$0.03	\$.60
Comprehensive (loss) income		
Net income	\$38,000	\$826,000
Net change in unrealized appreciation of investments (net of taxes)	(689,000 )	4,887,000
	\$(651,000 )	\$5,713,000



See accompanying Notes to Consolidated Financial Statements.

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Nine months	
	ended June 30	
	2014	2013
	(Restated)	
Revenues		
Advertising	\$8,620,000	\$11,299,000
Circulation	4,518,000	4,792,000
Advertising service fees and other	2,108,000	2,224,000
Information systems and services	16,680,000	8,335,000
	31,926,000	26,650,000
Costs and expenses		
Salaries and employee benefits	19,032,000	14,531,000
Other outside services	2,409,000	2,242,000
Postage and delivery expenses	961,000	1,006,000
Newsprint and printing expenses	948,000	1,000,000
Depreciation and amortization	4,134,000	1,544,000
Other general and administrative expenses	6,492,000	4,043,000
	33,976,000	24,366,000
(Loss) income from operations	(2,050,000 )	2,284,000
Other income (expense)		
Dividends and interest income	2,100,000	1,832,000
Other income	77,000	36,000
Interest and penalty expense accrued for uncertain and unrecognized tax benefits	(518,000 )	---
Interest expense on margin loans	(173,000 )	(66,000 )
(Loss) income before taxes	(564,000 )	4,086,000
(Benefit from) provision for income taxes	(15,000 )	1,275,000
Net (loss) income	\$(549,000 )	\$2,811,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net (loss) income per share	\$(0.40 )	\$2.04
Comprehensive income		
Net (loss) income	\$(549,000 )	\$2,811,000
Net change in unrealized appreciation of investments (net of taxes)	18,177,000	15,802,000
	\$17,628,000	\$18,613,000

See accompanying Notes to Consolidated Financial Statements.

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months	
	ended June 30	
	2014	2013
	(Restated)	
Cash flows from operating activities		
Net (loss) income	\$(549,000 )	\$2,811,000
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	4,134,000	1,544,000
Deferred income taxes	(1,956,000 )	644,000
Discounts earned on bonds	(2,000 )	(2,000 )
Changes in assets and liabilities		
Decrease (increase) in current assets (net of acquisition)		
Accounts receivable, net	(536,000 )	1,556,000
Inventories	8,000	(7,000 )
Prepaid expenses and other assets	622,000	(184,000 )
Income tax receivable	(1,113,000)	---
Increase (decrease) in liabilities (net of acquisition)		
Accounts payable	147,000	(753,000 )
Accrued liabilities	(1,501,000 )	(2,347,000 )
Income taxes	3,018,000	(756,000 )
Deferred subscriptions	(389,000 )	(410,000 )
Deferred maintenance agreements and others	399,000	95,000
Deferred installation contracts	1,533,000	443,000
Net cash provided by operating activities	3,815,000	2,634,000
Cash flows from investing activities		
Maturities and sales of U.S. Treasury Bills	---	800,000
Acquisition of New Dawn Technologies, Inc. (net of cash acquired)	---	(11,878,000)
Purchases of property, plant and equipment	(403,000 )	(258,000 )
Net cash used in investing activities	(403,000 )	(11,336,000)
Cash flows from financing activities		
Investment margin account borrowing	---	14,000,000
Cash provided by financing activities	---	14,000,000
Increase in cash and cash equivalents	3,412,000	5,298,000
Cash and cash equivalents		
Beginning of period	11,338,000	985,000

End of period	\$ 14,750,000	\$ 6,283,000
---------------	---------------	--------------

See accompanying Notes to Consolidated Financial Statements.

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 and Arizona, as well as the California Lawyer magazine, and produces several specialized information services. It also serves as a newspaper representative specializing in public notice advertising. This business is referred to herein as “The Traditional Business”.

Sustain Technologies, Inc. (“Sustain”) supplies case management software systems and related products to courts and other justice agencies, including 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 calendaring and accounting, report and notice generation, the implementation of time standards and business rules and other corollary functions, and to enable justice agencies to extend electronic services to the public and bar members. Its products are licensed in seven states and in Canada.

In December 2012, the Company purchased all of the outstanding stock of New Dawn Technologies, Inc. (“New Dawn”), based in Logan, Utah, which provides products and services similar to those of Sustain to more than 350 justice agencies in 40 states, three U.S. territories and two other countries.

In September 2013, the Company acquired substantially all of the operating assets and liabilities of ISD Corporation, now operating under the name of ISD Technologies, Inc. (“ISD”), which provides case management systems to California courts and other governmental agencies, similar to those of Sustain and New Dawn, and a service that provides the general public a secure website to pay traffic citations online.

Sustain, New Dawn and ISD are referred to collectively herein as “The Technology Companies”. The Company acquired New Dawn and ISD to expand its case management software business and to broaden its customer base in key markets. Essentially all of the Company’s operations are based in California, Arizona and Utah.

Note 2 - Basis of Presentation and Restatement

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 June 30, 2014 (as restated), its results of operations for the three- and nine-month periods ended June 30, 2014 (as restated) and 2013 and its cash flows for the nine-month periods ended June 30, 2014 (as restated) and 2013. The results of operations for the three and nine months ended June 30, 2014 (as restated) 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, 2013.

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

Restatement

The Company's consolidated balance sheet at June 30, 2014, its consolidated statements of comprehensive income (loss) for the three months and nine months ended June 30, 2014 and its consolidated statement of cash flows for the nine months ended June 30, 2014 have been restated to correct a misstatement in the accounting for income taxes in connection with one of its acquisitions. This resulted in the recording of an uncertain tax position liability in connection with the income tax treatment of deferred revenue from one of the Company's acquisitions in fiscal 2013, thus primarily offsetting the previous income tax benefit recorded in the third quarter of fiscal 2014.

The subject acquisition was treated as an asset purchase pursuant to Section 338(h)(10) of the Internal Revenue Code. At the time of the purchase, no deferred tax assets or deferred tax benefits were established.

The Company has now accrued a liability for its uncertain tax position of approximately \$3,018,000 which should be recorded in the third quarter of fiscal 2014 when the tax return was prepared, to primarily offset the previously recorded substantial tax benefit. If recognized, it is expected these unrecognized tax benefits would not have a significant impact to the Company's effective tax rate. The Company evaluated a tax position taken on its prior year tax return and determined that the position does not meet the more likely than not criteria. The prior year's income tax return which was filed in July 2014 reflected an income tax position contrary to the one accounted for in purchase accounting in December 2012. The recording of this liability results in an increase in the income tax provision of \$2,285,000. Interest and penalties of \$518,000 were also recorded as "interest and penalty expenses accrued for uncertain and unrecognized tax benefits". The Company does not anticipate a significant increase or decrease in this liability in the next twelve months.



A reconciliation showing the effects of the restatement on the financial statements included in the original Form 10-Q is provided below:

## DAILY JOURNAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

The effects of the restatement on our consolidated balance sheet as of June 30, 2014 are as follows:

	As of June 30, 2014		
	Previously Reported	Adjustments	Restated
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$14,750,000	\$---	\$14,750,000
Marketable securities, including common stocks of \$158,630,000 and bonds of \$8,193,000 at June 30, 2014 and common stocks of \$129,699,000 and bonds of \$7,295,000 at September 30, 2013	166,823,000	---	166,823,000
Accounts receivable, less allowance for doubtful accounts of \$250,000 at June 30, 2014 and September 30, 2013, respectively	6,850,000	---	6,850,000
Inventories	48,000	---	48,000
Prepaid expenses and other assets	1,336,000	---	1,336,000
Income tax receivable	1,757,000	(339,000 )	1,418,000
Total current assets	191,564,000	(339,000 )	191,225,000
Property, plant and equipment, at cost			
Land, buildings and improvements	12,861,000	---	12,861,000
Furniture, office equipment and computer software	2,958,000	---	2,958,000
Machinery and equipment	2,039,000	---	2,039,000
	17,858,000	---	17,858,000
Less accumulated depreciation	(8,716,000 )	---	(8,716,000 )
	9,142,000	---	9,142,000
Intangibles, net	18,967,000	---	18,967,000
Goodwill	13,400,000	---	13,400,000
Deferred income taxes	1,877,000	1,072,000	2,949,000
	\$234,950,000	\$733,000	\$235,683,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$4,406,000	\$---	\$4,406,000

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

Accrued liabilities	3,067,000	---	3,067,000
Deferred subscriptions	3,145,000	---	3,145,000
Deferred installation contracts	8,412,000	---	8,412,000
Deferred maintenance agreements and others	7,321,000	---	7,321,000
Deferred income taxes, net	43,917,000	---	43,917,000
Total current liabilities	70,268,000	---	70,268,000
Long term liabilities			
Investment margin account borrowings	29,493,000	---	29,493,000
Deferred maintenance agreements	211,000	---	211,000
Income tax payable	---	3,018,000	3,018,000
Accrued interest and penalty for uncertain and unrecognized tax benefits	---	518,000	518,000
Accrued liabilities	1,200,000	---	1,200,000
Total long term liabilities	30,904,000	3,536,000	34,440,000
Commitments and contingencies (Note 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, 2014 and September 30, 2013	14,000	---	14,000
Additional paid-in capital	1,755,000	---	1,755,000
Retained earnings	59,924,000	(2,803,000 )	57,121,000
Accumulated other comprehensive income	72,085,000	---	72,085,000
Total shareholders' equity	133,778,000	(2,803,000 )	130,975,000
	\$234,950,000	\$733,000	\$235,683,000

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

The effects of the restatement on our consolidated statement of comprehensive income (loss) for the three months ended June 30, 2014 are as follows:

	Three months ended June 30, 2014		
	Previously Reported	Adjustments	Restated
Revenues			
Advertising	\$2,976,000	\$---	\$2,976,000
Circulation	1,502,000	---	1,502,000
Advertising service fees and other	771,000	---	771,000
Information systems and services	5,898,000	---	5,898,000
	11,147,000	---	11,147,000
Costs and expenses			
Salaries and employee benefits	6,175,000	---	6,175,000
Other outside services	822,000	---	822,000
Postage and delivery expenses	335,000	---	335,000
Newsprint and printing expenses	368,000	---	368,000
Depreciation and amortization	1,385,000	---	1,385,000
Other general and administrative expenses	2,325,000	---	2,325,000
	11,410,000	---	11,410,000
Loss from operations	(263,000 )	---	(263,000 )
Other income (expense)			
Dividends and interest income	824,000	---	824,000
Other income	26,000	---	26,000
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	---	(518,000 )	(518,000 )
Interest expense	(56,000 )	---	(56,000 )
Income before taxes	531,000	(518,000 )	13,000
Benefit from income taxes	(2,310,000 )	2,285,000	(25,000 )
Net income	\$2,841,000	\$(2,803,000 )	\$38,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	---	1,380,746
Basic and diluted net income per share	\$2.06	\$(2.03 )	\$0.03

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

Comprehensive (loss) income			
Net income	\$2,841,000	\$(2,803,000)	\$38,000
Net decrease in unrealized appreciation of investments (net of taxes)	(689,000 )	---	(689,000 )
	\$2,152,000	\$(2,803,000)	\$(651,000 )

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

The effects of the restatement on our consolidated statement of comprehensive income (loss) for the nine months ended June 30, 2014 are as follows:

	Nine months ended June 30, 2014		
	Previously Reported	Adjustments	Restated
Revenues			
Advertising	\$8,620,000	\$---	\$8,620,000
Circulation	4,518,000	---	4,518,000
Advertising service fees and other	2,108,000	---	2,108,000
Information systems and services	16,680,000	---	16,680,000
	31,926,000	---	31,926,000
Costs and expenses			
Salaries and employee benefits	19,032,000	---	19,032,000
Other outside services	2,409,000	---	2,409,000
Postage and delivery expenses	961,000	---	961,000
Newsprint and printing expenses	948,000	---	948,000
Depreciation and amortization	4,134,000	---	4,134,000
Other general and administrative expenses	6,492,000	---	6,492,000
	33,976,000	---	33,976,000
Loss from operations	(2,050,000 )	---	(2,050,000 )
Other income (expense)			
Dividends and interest income	2,100,000	---	2,100,000
Other income	77,000	---	77,000
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	---	(518,000 )	(518,000 )
Interest expense	(173,000 )	---	(173,000 )
Loss before taxes	(46,000 )	(518,000 )	(564,000 )
Provision for (benefit from) income taxes	(2,300,000 )	2,285,000	(15,000 )
Net (loss) income	\$2,254,000	\$(2,803,000 )	\$(549,000 )
Weighted average number of common shares outstanding - basic and diluted	1,380,746	---	1,380,746
Basic and diluted net income (loss) per share	\$1.63	\$(2.03 )	\$(0.40 )

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

Comprehensive income			
Net (loss) income	\$2,254,000	\$(2,803,000)	\$(549,000 )
Net increase in unrealized appreciation of investments (net of taxes)	18,177,000	---	18,177,000
	\$20,431,000	\$(2,803,000)	\$17,628,000

Page 12 of 26

---

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

The effects of the restatement on our consolidated statement of cash flows for the nine months ended June 30, 2014 are as follows:

	Nine months ended June 30		
	Previously Reported	Adjustments	Restated
Cash flows from operating activities			
Net (loss) income	\$2,254,000	\$(2,803,000)	\$(549,000)
Adjustments to reconcile net income to net cash provided by operations			
Depreciation and amortization	4,134,000	---	4,134,000
Deferred income taxes	(884,000)	(1,072,000)	(1,956,000)
Discounts earned on bonds	(2,000)	---	(2,000)
Changes in assets and liabilities			
Decrease (increase) in current assets (net of acquisition)			
Accounts receivable, net	(536,000)	---	(536,000)
Inventories	8,000	---	8,000
Prepaid expenses and other assets	622,000	---	622,000
Income tax receivable	(1,452,000)	339,000	(1,113,000)
Increase (decrease) in liabilities (net of acquisition)			
Accounts payable	147,000	---	147,000
Accrued liabilities	(2,019,000)	518,000	(1,501,000)
Income taxes	---	3,018,000	3,018,000
Deferred subscriptions	(389,000)	---	(389,000)
Deferred maintenance agreements and others	399,000	---	399,000
Deferred installation contracts	1,533,000	---	1,533,000
Net cash provided by operating activities	3,815,000	---	3,815,000
Cash flows from investing activities			
Maturities and sales of U.S. Treasury Bills	---	---	---
Acquisition of New Dawn Technologies, Inc. (net of cash acquired)	---	---	---
Purchases of property, plant and equipment	(403,000)	---	(403,000)
Net cash used in investing activities	(403,000)	---	(403,000)
Cash flows from financing activities			
Investment margin account borrowing	---	---	---
Cash provided by financing activities	---	---	---

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

Increase in cash and cash equivalents	3,412,000	---	3,412,000
Cash and cash equivalents			
Beginning of period	11,338,000	---	11,338,000
End of period	\$14,750,000	\$---	\$14,750,000



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.

Note 4 – Acquisitions

In December 2012 the Company purchased all of the outstanding stock of New Dawn for \$14,000,000 in cash, and in September 2013 the Company acquired substantially all of the operating assets and liabilities of ISD Corporation for approximately \$16,000,000 in cash. Both acquisitions were accounted for using the purchase method of accounting in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*.

The Company finalized its valuation of ISD which resulted in an allocation of \$1,700,000 to goodwill and a reduction of the same amount in its intangible assets. The Company allocated the ISD purchase price to tangible assets (\$4,410,000 including cash of \$2,546,000; accounts receivable of \$1,636,000; fixed assets of \$141,000; and prepaid assets of \$87,000), identifiable intangible assets (purchased software and customer relationships of \$14,975,000 pursuant to the results of a third party valuation) and liabilities (\$5,112,000 including accounts payable and accrued expenses of \$2,270,000 and deferred maintenance agreements of \$2,842,000) based on their fair values with the remaining balance in excess of the net assets allocated to goodwill (\$1,700,000).

Note 5 - Business Combinations

During the nine months ended June 30, 2014, New Dawn had revenues of \$6,762,000, expenses of \$9,857,000 (including intangible amortization expenses of \$1,425,000), and a pretax loss of \$3,569,000 (previously \$3,051,000) as compared with revenues of \$6,430,000, expenses of \$7,168,000 (including amortization expenses of \$1,111,000) and a pretax loss of \$718,000 in the prior year period of less than seven months (December 5, 2012 through June 30, 2013).

During the nine months ended June 30, 2014, ISD had revenues of \$7,705,000, expenses of \$5,960,000 (including intangible amortization expenses of \$2,217,000), and pretax income of \$1,778,000.

Note 6 - Intangible Assets

At June 30, 2014, intangible assets comprised New Dawn's purchased software and customer relationship costs of \$6,488,000 (net of the accumulated amortization expenses of \$3,012,000) and ISD's purchased software and customer relationship costs of \$12,479,000 (net of accumulated amortization expenses of \$2,496,000). These identifiable intangible assets are being amortized over five years 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 \$3,642,000 for the nine months ended June 30, 2014 as compared with \$1,111,000 in the prior year period.

Note 7 – Goodwill

The Company accounts for goodwill in accordance with 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 as of September 30, 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 The Technology Companies 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, Accounting Standards Codification 2011-08, *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 2013 did not result in an impairment charge based on the qualitative assessment.

During the first quarter of fiscal 2014, the Company reclassified an additional \$1,700,000 to goodwill from its intangible assets as it finalized the valuation of the ISD acquisition to reflect \$13,400,000 as of September 30, 2013 and June 30, 2014. There was no goodwill impairment during the nine-month periods ended June 30, 2013 and 2014.

#### Note 8 – Revenue Recognition

For The Traditional Business, 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 term. Advertising revenues are recognized when advertisements are published and are net of commissions. An allowance for doubtful accounts is recorded for the accounts receivable.

The Technology Companies recognize revenues in accordance with the provisions of ASC 605, *Revenue Recognition* and ASC 985-605, *Software—Revenue Recognition*. Revenues from leases of software products are recognized over the life of the lease while revenues from software product sales are generally recognized upon delivery, installation or acceptance pursuant to a signed agreement. Revenues from 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 upon acceptance by the customers under the completed contract method. The Company has elected to use the completed contract method because a customer's acceptance is unpredictable, and reliable estimates of the progress towards completion cannot be made. Only after a customer's acceptance of a completed project are customer advances generally no longer at risk of refund and are at that point considered earned.

Approximately 52% of the Company's revenues during the nine months ended June 30, 2014 were derived from The Technology Companies, including revenues from sales and leases of software licenses, fees for maintenance and support services and revenues from consulting services that typically include implementation and training.

#### Note 9 - Income Taxes

For the nine months ended June 30, 2014, as restated, the Company recorded income tax benefit of \$15,000 on a pretax loss of \$564,000. The income tax expense was the net result of applying the projected annual tax rate of 23% adjusted for any discrete items recorded year-to-date. The Company's projected effective tax rate continues to be lower than the statutory rate mainly due to the available dividends received deduction and the domestic production activities deduction. On a pretax profit of \$4,086,000 for the nine months ended June 30, 2013, the Company recorded a tax provision of \$1,275,000, which was lower than the amount computed using the statutory rate primarily because of the available dividends received deduction and the domestic production activity deduction. The Company's effective tax rate was 3% and 31% for the nine months ended June 30, 2014 and 2013, respectively. The Company files federal income tax returns in the United States and with various state jurisdictions and is no longer subject to examinations for fiscal years before fiscal 2011 with regard to federal income taxes and fiscal 2010 for state income taxes.

## Note 10 - Investments in Marketable Securities

Investments in marketable securities categorized as “available-for-sale” are stated at fair value. The Company uses quoted prices in active markets for identical assets (consistent with the Level 1 definition in the fair value hierarchy) to measure the fair value of its investments on a recurring basis pursuant to ASC 820, *Fair Value Measurement*. As of June 30, 2014 and September 30, 2013, an unrealized gain of \$118,845,000 and \$89,018,000, respectively, was recorded net of taxes of \$46,260,000 and \$34,610,000, respectively, in “Accumulated other comprehensive income” in the accompanying Consolidated Balance Sheets. Most of the unrealized gains were in the common stocks of three U.S. financial institutions.

Investments in equity securities and securities with fixed maturity as of June 30, 2014 and September 30, 2013 are summarized below.

	June 30, 2014 (Unaudited)			September 30, 2013		
	Aggregate fair value	Amortized/ Adjusted cost basis	Pretax unrealized gains	Aggregate fair value	Amortized/ Adjusted cost basis	Pretax unrealized gains
Marketable securities						
Common stocks	\$ 158,630,000	\$43,042,000	\$ 115,588,000	\$ 129,699,000	\$43,042,000	\$ 86,657,000
Bonds	8,193,000	4,936,000	3,257,000	7,295,000	4,934,000	2,361,000
Total	\$ 166,823,000	\$47,978,000	\$ 118,845,000	\$ 136,994,000	\$47,976,000	\$ 89,018,000

All investments are classified as “Current assets” because they are available for sale at any time. The bonds mature in 2039. In addition, there were no unrealized losses from any of the equity securities owned by the Company as of June 30, 2014.

## Note 11 - Debt and Commitments and Contingencies

On December 4, 2012, the Company borrowed from its investment margin account the purchase price of \$14 million for the New Dawn acquisition, and on September 13, 2013, it borrowed another \$15.5 million for the ISD acquisition, in each case pledging its marketable securities as collateral. The interest rate for these investment margin account borrowings will fluctuate based on the Federal Funds Rate plus 50 basis points with interest only payable monthly. These investment margin account borrowings do not mature.

The Company owns its facilities in Los Angeles and leases space for its other offices under operating leases which expire at various dates through fiscal 2017. The Logan, Utah office operating lease entered into in December 2012 in connection with the New Dawn acquisition requires a monthly rent of about \$42,000 and will expire in fiscal 2016, subject to certain extension options. Part of this office space is sub-leased to third parties under short-term leases for approximately \$5,000 per month. ISD leases office space in Corona, California, for a monthly rent of about \$12,000 and will expire in March 2017. The Company is also responsible for a portion of maintenance, insurance and property tax expenses relating to these leased properties and certain other leased properties. Rental expenses for comparable nine-month periods ended June 30, 2014 and 2013 were \$938,000 and \$635,000, respectively.

From time to time, the Company is subject to litigation arising in the normal course of its business. While it is not possible to predict the results of such litigation, management does not believe the ultimate outcome of these matters will have a material effect on the Company's financial position or results of operations.

## Note 12 - Operating Segments

The Company has two segments of business. The Company's reportable segments are (i) The Traditional Business and (ii) The Technologies Companies. Summarized financial information concerning the Company's reportable segments is shown in the following table:

	Reportable segments		Total
	The Traditional Business	The Technology Companies	
Nine months ended June 30, 2014 (Restated)			
Revenues	\$ 15,246,000	\$ 16,680,000	\$ 31,926,000
(Loss) income from operations	2,106,000	(4,156,000 )	(2,050,000 )
Pretax (loss) income	4,033,000	(4,597,000 )	(564,000 )
Income tax (benefit) expense	2,260,000	(2,275,000 )	(15,000 )
Net (loss) income	1,773,000	(2,322,000 )	(549,000 )
Total assets	182,243,000	53,440,000	235,683,000
Capital expenditures	78,000	325,000	403,000
Amortization of intangible assets	---	3,642,000	3,642,000

	The Traditional Business	Sustain and New Dawn*	Total
	Nine months ended June 30, 2013		
Revenues	\$ 18,315,000	\$ 8,335,000	\$ 26,650,000
Income (loss) from operations	6,088,000	(3,804,000 )	2,284,000
Pretax income (loss)	7,869,000	(3,783,000 )	4,086,000
Income tax expense (benefit)	2,500,000	(1,225,000 )	1,275,000
Net income (loss)	5,369,000	(2,558,000 )	2,811,000
Total assets	146,902,000	26,849,000	173,751,000
Capital expenditures	96,000	162,000	258,000
Amortization of intangible assets	---	1,111,000	1,111,000

	The Traditional Business	The Technology Companies	Total
	Three months ended June 30, 2014 (Restated)		
Revenues	\$ 5,249,000	\$ 5,898,000	\$ 11,147,000

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

(Loss) income from operations	972,000	(1,235,000 )	(263,000 )
Pretax income (loss)	1,740,000	(1,727,000 )	13,000
Income tax (benefit) expense	975,000	(1,000,000 )	(25,000 )
Net income	765,000	(727,000 )	38,000
Total assets	182,243,000	53,440,000	235,683,000
Capital expenditures	26,000	168,000	194,000
Amortization of intangible assets	---	1,223,000	1,223,000

	The Traditional Business	Sustain and New Dawn**	Total
Three months ended June 30, 2013			
Revenues	\$5,876,000	\$3,328,000	\$9,204,000
Income (loss) from operations	1,994,000	(1,548,000 )	446,000
Pretax income (loss)	2,701,000	(1,540,000 )	1,161,000
Income tax expense (benefit)	840,000	(505,000 )	335,000
Net income (loss)	1,861,000	(1,035,000 )	826,000
Total assets	146,902,000	26,849,000	173,751,000
Capital expenditures	5,000	97,000	102,000
Amortization of intangible assets	---	476,000	476,000

\* Includes New Dawn's financial results from December 5, 2012 through June 30, 2013 with revenues of \$6,430,000 and expenses of \$7,168,000 (including intangible amortization expenses of \$1,111,000).

\*\* Includes New Dawn's financial results from April 1, 2013 through June 30, 2013 with revenues of \$2,740,000 and expenses of \$3,110,000 (including intangible amortization expenses of \$476,000).



Note 13 - Subsequent Events

The Company has completed an evaluation of all subsequent events through the issuance date of these financial statements and concluded that no subsequent events occurred that required recognition to the financial statements or disclosures in the Notes to Consolidated Financial Statements or cash flows.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company continues to operate as two different businesses: (1) "The Traditional Business", being the business of newspaper and magazine publishing and related services that the Company had before 1999 when it purchased Sustain, and (2) the Sustain, New Dawn and ISD software businesses ("The Technology Companies") which supply case management software systems and related products to courts and other justice agencies.

### *Acquisitions*

In December 2012, the Company purchased all of the outstanding stock of New Dawn for \$14,000,000 in cash. New Dawn provides case management products and services to more than 350 justice agencies in 40 states, three U.S. territories and two other countries. In September 2013, the Company acquired substantially all of the operating assets and liabilities of ISD Corporation for about \$16,000,000 in cash. Now operating under the name of ISD Technologies, Inc., ISD provides case management systems to California courts and other governmental agencies, and a service that provides the general public a secure website to pay traffic citations online. These acquisitions have expanded the Company's position in the case management software marketplace.

The Company finalized its valuation of ISD which resulted in an allocation of \$1,700,000 to goodwill and a reduction of the same amount in its intangible assets. The Company allocated the ISD purchase price to tangible assets (\$4,410,000 including cash of \$2,546,000; accounts receivable of \$1,636,000; fixed assets of \$141,000; and prepaid assets of \$87,000), identifiable intangible assets (purchased software and customer relationships of \$14,975,000 pursuant to the results of a third party valuation) and liabilities (\$5,112,000 including accounts payable and accrued expenses of \$2,270,000 and deferred maintenance agreements of \$2,842,000) based on their fair values with the remaining balance in excess of the net assets allocated to goodwill (\$1,700,000).

### *Overall Results*

During the nine months ended June 30, 2014, the Company had a consolidated pretax loss of \$564,000 as compared to pretax income of \$4,086,000 in the prior year period. This was a decrease in profits of \$4,650,000 (114%) that included \$2,531,000 of additional amortizations of intangible acquisition costs.

Pretax income of The Traditional Business decreased by \$3,836,000 (49%) to \$4,033,000 from \$7,869,000, primarily resulting from a reduction in trustee sale notice and related service fee revenues. The Technology Companies had a

pretax loss of \$4,597,000 compared to \$3,783,000 in the prior year period. Sustain had revenues of \$2,213,000 and operating expenses of \$5,019,000. New Dawn had revenues of \$6,762,000 and operating expenses of \$9,857,000 (including intangible amortization expenses of \$1,425,000), and ISD had revenues of \$7,705,000 and operating expenses of \$5,960,000 (including intangible amortization expenses of \$2,217,000).

Consequently, there was a net loss per share of \$0.40 for the nine months ended June 30, 2014, as compared with a net income per share of \$2.04 in the prior year period.

At June 30, 2014 the aggregate fair market value of the Company's marketable securities was \$166,823,000. These securities had approximately \$118,845,000 of unrealized gains before taxes of \$46,260,000 and generated approximately \$2,100,000 in dividends and interest income during the period, which lowers the Company's effective income tax rate because of the dividends received deduction. Most of the unrealized gains were in the common stocks of three U.S. financial institutions.

Comprehensive income includes net income and unrealized net gains on investments, net of taxes, as summarized below:

**Comprehensive Income**

	Nine months ended June 30	
	2014	2013
	(Restated)	
Net (loss) income	\$ (549,000 )	\$ 2,811,000
Net increase in unrealized appreciation of investments (net of taxes)	18,177,000	15,802,000
	\$ 17,628,000	\$ 18,613,000

\* \* \* \* \*

	Reportable segments		
	The	The	
	Traditional	Technologies	Total
	Business	Companies	
Nine months ended June 30, 2014 (Restated)			
Revenues	\$ 15,246,000	\$ 16,680,000	\$ 31,926,000
(Loss) income from operations	2,106,000	(4,156,000 )	(2,050,000 )
Pretax (loss) income	4,033,000	(4,597,000 )	(564,000 )
Income tax (benefit) expense	2,260,000	(2,275,000 )	(15,000 )
Net (loss) income	1,773,000	(2,322,000 )	(549,000 )
Amortization of intangible assets	---	3,642,000	3,642,000

	The	Sustain and	
	Traditional	New	Total
	Business	Dawn*	
Nine months ended June 30, 2013			
Revenues	\$ 18,315,000	\$ 8,335,000	\$ 26,650,000
Income (loss) from operations	6,088,000	(3,804,000)	2,284,000
Pretax income (loss)	7,869,000	(3,783,000)	4,086,000

Edgar Filing: DAILY JOURNAL CORP - Form 10-Q/A

Income tax expense (benefit)	2,500,000	(1,225,000)	1,275,000
Net income (loss)	5,369,000	(2,558,000)	2,811,000
Amortization of intangible assets	---	1,111,000	1,111,000

\* Includes New Dawn's financial results from December 5, 2012 through June 30, 2013 with revenues of \$6,430,000 and expenses of \$7,168,000 (including intangible amortization expenses of \$1,111,000).

Consolidated revenues were \$31,926,000 and \$26,650,000 for the nine months ended June 30, 2014 and 2013, respectively. This increase of \$5,276,000 (20%) was primarily from additional New Dawn (acquired in December 2012) and ISD (acquired in September 2013) revenues of \$8,037,000, partially offset by the reduction in trustee sale notice and related service fee revenues of \$2,429,000. The Company's revenues derived from The Technology Companies' operations constituted about 52% and 31% of the Company's total revenues for the nine months ended June 30, 2014 and 2013, respectively. (Consolidated revenues were \$11,147,000 and \$9,204,000 for the three months ended June 30, 2014 and 2013, respectively.)

Consolidated operating costs and expenses increased by \$9,610,000 (39%) to \$33,976,000 from \$24,366,000, primarily due to the additional operating expenses associated with New Dawn and ISD. Total personnel costs increased by \$4,501,000 (31%) to \$19,032,000 from \$14,531,000 primarily due to The Technology Companies' additional personnel costs of \$3,998,000. Depreciation and amortization costs increased by \$2,590,000 (168%) to \$4,134,000 mainly resulting from the amortization of The Technology Companies' intangible costs of \$3,642,000 during this period as compared with \$1,111,000 in the prior year period. Again, this was primarily attributable to the acquisitions of New Dawn and ISD. Other general and administrative expenses also increased by \$2,449,000 (61%) primarily resulting from additional rent, sales and marketing expenses for The Technology Companies and increased accounting and professional fees including those associated with the audit of the Company's fiscal 2103 financial statements and the audit of its internal control over financial reporting. (Consolidated operating costs were \$11,410,000 and \$8,758,000 for the three months ended June 30, 2014 and 2013, respectively.)

### *The Traditional Business*

The advertising revenues of The Traditional Business, which declined by \$2,679,000 (24%) from \$11,299,000 to \$8,620,000, are very much dependent on the number of California and Arizona foreclosures for which public notice advertising is required by law. The number of foreclosure notices published by the Company decreased by 54% during the nine months ended June 30, 2014 as compared to the prior year period. Because this slowing is expected to continue, we anticipate there will be fewer foreclosure notice advertisements and declining revenues during the remainder of fiscal 2014, and the earnings of The Traditional Business will also continue to decline. (Operating expenses were \$13,140,000 and \$12,227,000 for the nine months ended June 30, 2014 and 2013, respectively.) The Company's smaller newspapers, those other than the Los Angeles and San Francisco Daily Journals ("The Daily Journals"), accounted for about 96% of the total public notice advertising revenues in the first nine months of fiscal 2014. Public notice advertising revenues and related advertising and other service fees constituted about 25% of the Company's total revenues during this period. Because of this concentration, the Company's revenues would be significantly affected if California (and to a lesser extent Arizona) eliminated the legal requirement to publish public notices in adjudicated newspapers of general circulation, as has been proposed from time to time. Also, if the adjudication of one or more of the Company's newspapers was challenged and revoked, those newspapers would no longer be eligible to publish public notice advertising, and it could have a material adverse effect on the Company's revenues.

Furthermore, we do not expect to experience an offsetting increase in commercial advertising as a result of the general economic improvements that have led to fewer foreclosures because of the continuing challenges in the commercial advertising business, for which revenues declined \$349,000 (11%) from \$3,232,000 to \$2,883,000. The Daily Journals accounted for about 85% of the Company's total circulation revenues, which declined by \$274,000 (6%) from \$4,792,000 to \$4,518,000. The court rule and judicial profile services generated about 11% of the total circulation revenues, with the other newspapers and services accounting for the balance. Advertising service fees and other are part of The Traditional Business, which include primarily (i) agency commissions received from outside newspapers in which the advertising is placed and (ii) fees generated when filing notices with government agencies.

### *The Technology Companies*

The Technology Companies' revenues increased by \$8,345,000 from \$8,335,000 to \$16,680,000, and operating expenses, including intangible amortization of \$2,531,000, increased by \$8,697,000 from \$12,139,000 to \$20,836,000, primarily because of the New Dawn and ISD acquisitions. For the nine months ended June 30, 2014, The Technology Companies recognized revenues of \$9,318,000 from fees for licensing and maintenance of their software products, \$2,713,000 from consulting services and \$4,649,000 from public user fees, compared to \$6,368,000 from fees for licensing and maintenance and \$1,967,000 from consulting services in the prior comparative period. During the prior year period, The Technology Companies operating segment consisted of only Sustain and, for less than seven months, New Dawn.



The Technology Companies' consulting, licensing and maintenance revenues are subject to substantial uncertainty because they depend on (i) the timing of the acceptance of the completed installations, (ii) the unpredictable needs of their existing customers, and (iii) their ability to secure new customers. In most cases, revenues from their new installation projects will only be recognized upon completion and acceptance of their services by the various customers. Deferred revenues on installation contracts primarily represent advances from customers of The Technology Companies for software licenses and installation services in various stages of completion. After a customer's acceptance of the completed project, the advances are generally no longer at risk of refund and are therefore considered earned. Deferred revenues on maintenance contracts represent prepayments of maintenance fees. The intangibles are being amortized over five years. Goodwill is not amortized for financial statement 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 The Technology Companies include the current year's business profitability before the intangible amortizations, fluctuations of revenues, changes in the market place, the status of deferred installation contracts and new business, among other things. The Company is continuing to update and upgrade its software products. These costs are expensed as incurred and will materially impact earnings at least through the foreseeable future.

#### *Taxes*

For the nine months ended June 30, 2014, as restated, the Company recorded income tax benefit of \$15,000 on a pretax loss of \$564,000. The income tax expense was the net result of applying the projected annual tax rate of 23% adjusted for any discrete items recorded year-to-date. The Company's projected effective tax rate continues to be lower than the statutory rate mainly due to the available dividends received deduction and the domestic production activities deduction. On a pretax profit of \$4,086,000 for the nine months ended June 30, 2013, the Company recorded a tax provision of \$1,275,000, which was lower than the amount computed using the statutory rate primarily because of the available dividends received deduction and the domestic production activity deduction. The Company's effective tax rate was 3% and 31% for the nine months ended June 30, 2014 and 2013, respectively. The Company files federal income tax returns in the United States and with various state jurisdictions and is no longer subject to examinations for fiscal years before fiscal 2011 with regard to federal income taxes and fiscal 2010 for state income taxes.

#### **Liquidity and Capital Resources**

During the nine months ended June 30, 2014, the Company's cash and cash equivalents and marketable security positions increased by \$33,241,000 to \$181,573,000. At June 30, 2014 the aggregate fair market value of the Company's marketable securities was \$166,823,000 with a pretax unrealized gain of \$118,845,000. Cash and cash equivalents were used primarily to complete the purchase of ISD (\$480,000) and to purchase capital assets, including computer software and office equipment (\$403,000). During the first quarter of fiscal 2013, the Company borrowed \$14,000,000 from its investment margin account to purchase all of the outstanding stock of New Dawn, and during the fourth quarter of fiscal 2013, it borrowed another \$15,500,000 million to acquire substantially all assets and liabilities of ISD, in each case pledging its marketable securities to obtain favorable financing.



The cash provided by operating activities of \$3,815,000 included net decreases in accrued liabilities and accounts payable of \$1,354,000, including the balance payment of \$480,000 to complete the ISD acquisition. Cash flows from operating activities increased by \$1,181,000 during the nine months ended June 30, 2014 as compared to the prior year period primarily resulting from the increases in deferred installation contracts and maintenance agreements and others of \$1,394,000.

As of June 30, 2014, the Company had working capital of \$120,957,000, including the liabilities for deferred subscriptions and deferred installation contracts and maintenance agreements of \$18,878,000, which are scheduled to be earned within one year, and the deferred tax liability of \$46,260,000 for the unrealized gains described above.

The Company believes that it will be able to fund its operations for the foreseeable future through its cash flows from operating activities and its current working capital and expects that any such cash flows will be invested in its businesses. The Company continues to have the ability to borrow against its marketable securities on favorable terms as it did for the New Dawn and ISD acquisitions. The Company also may entertain additional business acquisition opportunities. Any excess cash flows could be used to reduce the investment margin account liability or invested as the Board of Directors deems appropriate at the time.

Such investments may include additional securities of the companies in which the Company has already invested, securities of other companies, government securities (including U.S. Treasury Notes and Bills) or other instruments. The decision as to particular investments will be driven by the Company's belief about the risk/reward profile of the various investment choices at the time, and it may utilize government securities as a default if attractive opportunities for a better return are not available. The Company's Chairman of the Board, Charles Munger, is also the vice chairman of Berkshire Hathaway Inc., which maintains a substantial investment portfolio. The Company's Board of Directors has utilized his judgment and suggestions, as well as those of J.P. Guerin, the Company's vice chairman, when selecting investments, and both of them will continue to play an important role in monitoring existing investments and selecting any future investments.

As noted above, however, the investments are concentrated in just six companies. Accordingly, a significant decline in the market value of one or more of the Company's investments may not be offset by the hypothetically better performance of other investments, and that could result in a large decrease in the Company's shareholders' equity and, under certain circumstances, in the recognition of impairment losses in the Company's income statement (such as the other-than-temporary impairment losses of \$1,719,000 recognized during the fourth quarter of 2013 and the \$2,855,000 recognized in the third quarter of 2012).

### **Critical Accounting Policies**

The Company's financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are affected by management's application of accounting policies. Management believes that fair value measurement and disclosures, revenue recognition, accounting for software costs, accounting for business combinations, testing for goodwill impairment and income taxes are critical accounting policies.

The Company's critical accounting policies are detailed in its Annual Report on Form 10-K for the year ended September 30, 2013. The above discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the notes thereto included in this report.



## Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Certain statements contained in this document, including but not limited to those in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, are “forward-looking” statements that involve risks and uncertainties that may cause actual future events or results to differ materially from those described in the forward-looking statements. Words such as “expects,” “intends,” “anticipates,” “should,” “believes,” “will,” “plans,” “estimates,” “may,” variations of such similar expressions are intended to identify such forward-looking statements. We disclaim any intention or obligation to revise any forward-looking statements whether as a result of new information, future developments, or otherwise. There are many factors that could cause actual results to differ materially from those contained in the forward-looking statements. These factors include, among others: risks associated with software development and implementation efforts; Sustain’s, New Dawn’s and ISD’s reliance on professional services engagements with justice agencies, including California courts, for a substantial portion of their revenues; material changes in the costs of postage and paper; possible changes in the law, particularly changes limiting or eliminating the requirements for public notice advertising; possible loss of the adjudicated status of the Company’s newspapers and their legal authority to publish public notice advertising; a further decline in public notice advertising revenues because of fewer foreclosures; a further decline in subscriber and commercial advertising revenues; the Company’s reliance on its president and chief executive officer; changes in accounting guidance; the Company’s failure to timely file its Form 10-K for fiscal 2013 and its quarterly reports on Form 10-Q for the first two quarters of fiscal 2014; and declines in the market prices of the Company’s investments. In addition, such statements could be affected by general industry and market conditions, general economic conditions (particularly in California) and other factors. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in this Form 10-Q, including in conjunction with the forward-looking statements themselves. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in documents filed by the Company with the Securities and Exchange Commission, including in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

## Item 4. CONTROLS AND PROCEDURES

### Original Evaluation

An evaluation was performed under the supervision and with the participation of the Company’s management, including Gerald L. Salzman, its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of June 30, 2014. Based on that evaluation, Mr. Salzman concluded that the Company’s disclosure controls and procedures were effective. In reaching this conclusion, Mr. Salzman recognized that the Company did not file its Form 10-K for fiscal 2013 and its Forms 10-Q for the first and second quarters of fiscal 2014 on a timely basis, but he concluded that the delays were the result

of the additional time required to complete the audits of the Company's financial statements for fiscal 2013 and the Company's internal control over financial reporting, and not a lack of effectiveness of the Company's disclosure controls and procedures. Also, the Company dismissed its former independent registered public accounting firm on June 24, 2014 and engaged BDO USA, LLP on July 3, 2014. Otherwise, there were no material changes in the Company's internal control over financial reporting or in other factors reasonably likely to affect its internal control over financial reporting during the quarter ended June 30, 2014.

#### Consideration of Restatement

In light of the restatement discussed in Note 2 to the consolidated financial statements, Mr. Salzman reevaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2014, including whether the restatement was the result of material weaknesses in the Company's internal control over financial reporting. As part of this assessment, Mr. Salzman reconsidered whether the Company's existing controls over financial reporting were sufficient to provide the Company with a reasonable level of assurance regarding the preparation and fair presentation of the Company's financial statements. Based on this new assessment, Mr. Salzman concluded that, due to the small size of the Company's accounting department, the Company does not segregate duties to the extent it could if it had more people and the Company does not have sufficient technical expertise on staff to assess and apply accounting standards for non-routine transactions, assess the adequacy of disclosures in the quarterly financial statements, and review the quarterly and annual tax analysis and provision. (The Company has always used third party tax advisors.) Accordingly, the material weaknesses in the Company's internal control over financial reporting were identified, and Mr. Salzman concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2014.

**PART II**

**Item 1A. Risk Factors**

There have been no material changes to the risk factors and uncertainties previously disclosed in the Company's Form 10-Q for the fiscal quarter ended December 31, 2013.

Page 25 of 26

---

Item 6. Exhibits

31 Certification by Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification by Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS\*\* XBRL Instance

101.SCH\*\* XBRL Taxonomy Extension Schema

101.CAL\*\* XBRL Taxonomy Extension Calculation

101.DEF\*\* XBRL Taxonomy Extension Definition

101.LAB\*\* XBRL Taxonomy Extension Labels

101.PRE\*\* XBRL Taxonomy Extension Presentation

\*\* XBRL information is furnished and not filed as a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DAILY JOURNAL CORPORATION  
(Registrant)

/s/ Gerald L. Salzman

Gerald L. Salzman  
Chief Executive Officer  
President  
Chief Financial Officer  
Treasurer  
(Principal Executive Officer,  
Principal Financial Officer and  
Principal Accounting Officer)

DATE: January 28, 2015