DAILY JOURNAL CORP
Form 10-Q
August 07, 2015
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, 2015

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, 2015
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 2015	September 30 2014
ASSETS		
Current assets		
Cash and cash equivalents	$12,573,000	$15,410,000
Marketable securities at fair value, including common stocks of $174,112,000 and bonds of $7,525,000 at June 30, 2015 and common stocks of $165,734,000 and bonds of $7,942,000 at September 30, 2014	181,637,000	173,676,000
Accounts receivable, less allowance for doubtful accounts of $250,000 at June 30, 2015 and September 30, 2014, respectively	6,654,000	8,566,000
Inventories	63,000	51,000
Prepaid expenses and other assets	699,000	983,000
Income tax receivable	1,412,000	2,051,000
Total current assets	203,038,000	200,737,000
Property, plant and equipment, at cost		
Land, buildings and improvements	12,759,000	12,814,000
Furniture, office equipment and computer software	3,179,000	2,889,000
Machinery and equipment	1,864,000	1,864,000
	17,802,000	17,567,000
Less accumulated depreciation	(8,775,000)	(8,552,000)
	9,027,000	9,015,000
Intangibles, net	14,072,000	17,744,000
Goodwill	13,400,000	13,400,000
Deferred income taxes	3,663,000	2,981,000
	$243,200,000	$243,877,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$4,114,000	$4,344,000
Accrued liabilities	3,803,000	3,118,000
Deferred subscriptions	3,535,000	3,381,000
Deferred installation contracts	8,583,000	8,896,000
Deferred license and maintenance agreements and others	4,704,000	7,031,000
Deferred income taxes, net	46,638,000	46,502,000

Total current liabilities	71,377,000	73,272,000
Long term liabilities		
Investment margin account borrowings	29,493,000	29,493,000
Deferred maintenance agreements	140,000	180,000
Income tax payable	3,059,000	3,244,000
Accrued interest and penalty for uncertain and unrecognized tax benefits	607,000	537,000
Accrued liabilities	350,000	780,000
Total long term liabilities	33,649,000	34,234,000
Commitments and contingencies (Note 9)	---	---
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, 2015 and September 30, 2014	14,000	14,000
Additional paid-in capital	1,755,000	1,755,000
Retained earnings	59,271,000	58,301,000
Accumulated other comprehensive income	77,134,000	76,301,000
Total shareholders' equity	138,174,000	136,371,000
	$243,200,000	$243,877,000

See accompanying Notes to Consolidated Financial Statements

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DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three months ended June 30 2015	2014
Revenues		
Advertising	$2,701,000	$2,976,000
Circulation	1,445,000	1,502,000
Advertising service fees and other	711,000	770,000
Licensing and maintenance fees	3,315,000	3,175,000
Consulting fees	791,000	1,189,000
Other public service fees	1,540,000	1,534,000
	10,503,000	11,146,000
Costs and expenses		
Salaries and employee benefits	6,357,000	6,175,000
Other outside services	827,000	822,000
Postage and delivery expenses	346,000	335,000
Newsprint and printing expenses	335,000	368,000
Depreciation and amortization	1,366,000	1,385,000
Other general and administrative expenses	2,405,000	2,325,000
	11,636,000	11,410,000
Loss from operations	(1,133,000)	(264,000)
Other income (expense)		
Dividends and interest income	1,177,000	825,000
Other income and capital gains	11,000	26,000
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	(26,000)	(518,000)
Interest expense	(56,000)	(56,000)
(Loss) income before income tax benefit	(27,000)	13,000
Benefit from income taxes	60,000	25,000
Net income	$33,000	$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	$.02	$.03
Comprehensive income (loss)		
Net income	$33,000	$38,000
Net change in unrealized appreciation of investments (net of taxes)	5,277,000	(689,000)
	$5,310,000	$(651,000)

See accompanying Notes to Consolidated Financial Statements.

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Nine months ended June 30	
	2015	2014
Revenues		
Advertising	$7,954,000	$8,620,000
Circulation	4,429,000	4,518,000
Advertising service fees and other	2,040,000	2,104,000
Licensing and maintenance fees	10,752,000	9,318,000
Consulting fees	3,401,000	2,715,000
Other public service fees	4,636,000	4,647,000
	33,212,000	31,922,000
Costs and expenses		
Salaries and employee benefits	19,740,000	19,032,000
Other outside services	2,509,000	2,409,000
Postage and delivery expenses	990,000	961,000
Newsprint and printing expenses	935,000	948,000
Depreciation and amortization	4,093,000	4,134,000
Other general and administrative expenses	7,411,000	6,492,000
	35,678,000	33,976,000
Loss from operations	(2,466,000)	(2,054,000)
Other income (expense)		
Dividends and interest income	2,865,000	2,100,000
Other income and capital gains	49,000	81,000
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	(70,000)	(518,000)
Interest expense	(168,000)	(173,000)
Income (loss) before income tax benefit	210,000	(564,000)
Benefit from income taxes	760,000	15,000
Net income (loss)	$970,000	$(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	$.70	$(0.40)
Comprehensive income		
Net income (loss)	970,000	$(549,000)
Net change in unrealized appreciation of investments (net of taxes)	833,000	18,177,000
	$1,803,000	$17,628,000

See accompanying Notes to Consolidated Financial Statements.

DAILY JOURNAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended June 30 2015	2014
Cash flows from operating activities		
Net income (loss)	$970,000	$(549,000)
Adjustments to reconcile net income (loss) to net cash provided by operations		
Depreciation and amortization	4,093,000	4,134,000
Gains on sales of marketable securities	(4,000)	---
Deferred income taxes	(735,000)	(1,956,000)
Discounts earned on bonds	(2,000)	(2,000)
Changes in assets and liabilities		
(Increase) decrease in current assets (net of acquisitions)		
Accounts receivable, net	1,912,000	(536,000)
Inventories	(12,000)	8,000
Prepaid expenses and other assets	284,000	622,000
Income tax receivable	639,000	(1,113,000)
Increase (decrease) in liabilities (net of acquisitions)		
Accounts payable	(230,000)	147,000
Accrued liabilities	325,000	(1,501,000)
Income taxes	(185,000)	3,018,000
Deferred subscriptions	154,000	(389,000)
Deferred license and maintenance agreements and others	(2,367,000)	399,000
Deferred installation contracts	(313,000)	1,533,000
Net cash provided by operating activities	4,529,000	3,815,000
Cash flows from investing activities		
Sales of marketable securities	4,044,000	---
Purchases of marketable securities	(10,977,000)	---
Purchases of property, plant and equipment	(433,000)	(403,000)
Net cash used in investing activities	(7,366,000)	(403,000)
(Decrease) increase in cash and cash equivalents	(2,837,000)	3,412,000
Cash and cash equivalents		
Beginning of period	15,410,000	11,338,000
End of period	$12,573,000	$14,750,000
Interest paid during period	$168,000	$168,000

Net income taxes (refunded) paid during period	$(547,000)	$20,000

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, 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.

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. Effective October 1, 2014, Sustain and ISD merged into New Dawn, and New Dawn changed its name to Journal Technologies. The merger was concluded in accordance with *Accounting Standards Codification ("ASC") 805-50-15, Business Combinations - Transactions Between Entities Under Common Control* which is when a parent's subsidiary issues its shares in exchange for shares of another subsidiary previously owned by the same parent. Because pushdown accounting had been applied at the time of acquisitions, all assets and liabilities of Sustain and ISD were integrated into Journal Technologies at their carrying book values. Journal Technologies supplies case management software systems and related products to courts and other justice agencies, including administrative law organizations, 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 41 states, 3 U.S. territories and 2 other countries.

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 statement of its financial position as of June 30, 2015, its results of operations for the three- and nine-month periods ended June 30, 2015 and 2014 and its cash flows for the nine-month periods ended June 30, 2015 and 2014. The results of operations for the three- and nine-month periods ended June 30, 2015 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 audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

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

Note 3 - Basic and Diluted Income Per Share

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

Note 4 - Intangible Assets

Intangible Assets

	June 30, 2015			September 30, 2014		
	Customer Relationships	Developed Technology	Total	Customer Relationships	Developed Technology	Total
Gross intangibles	$21,950,000	$2,525,000	$24,475,000	$21,950,000	$2,525,000	$24,475,000
Accumulated amortization	(9,297,000)	(1,106,000)	(10,403,000)	(6,004,000)	(727,000)	(6,731,000)
	$12,653,000	$1,419,000	$14,072,000	$15,946,000	$1,798,000	$17,744,000

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 $3,671,000 for the nine months ended June 30, 2015 as compared with $3,642,000 in the prior year period.

Note 5 – 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, 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, ASC 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 2014 did not result in an impairment charge based on the qualitative assessment. There was no goodwill impairment during the three- and nine-month periods ended June 30, 2015 and 2014.

Note 6 – Revenue Recognition

For the Company's traditional publishing business (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.

Journal Technologies recognizes revenues in accordance with the provisions of ASC 985-605, *Software—Revenue Recognition* and ASC 605-35 *Construction-Type and Production-Type Contracts*. 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 annual license and 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 elects to use the completed contract method because each 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 therefore considered earned.

Approximately 57% and 52% of the Company's revenues during the nine months ended June 30, 2015 and 2014, respectively, were derived from Journal Technologies.

The Company has established Vendor Specific Objective Evidence (VSOE) of fair value of the annual maintenance because a substantial majority of the Journal Technologies' actual maintenance renewals is within a narrow range of pricing as a percentage of the underlying license fees for the legacy contracts and is deemed substantive.

Note 7 - Income Taxes

Because a small change in ordinary income produces a significant change in the annual effective rate due to significant permanent book and tax differences, primarily for the dividends received deduction, it was impractical for the Company to compute a reliable estimate using the annual effective rate method. As such, the Company computed its estimate of income taxes on each component of taxable income; ordinary income, the dividends received deduction and other permanent book and tax differences, and recorded each in the period in which it occurred.

For the nine months ended June 30, 2015, the Company recorded an income tax benefit of $760,000 on pretax income of $210,000. The effective tax rate was lower than the statutory rate primarily due to the dividends received deduction, the domestic production activity deduction and a discrete benefit of about $400,000 related to the California Enterprise Zone credits. On pretax loss of $564,000 for the nine months ended June 30, 2014, the Company recorded a tax benefit of $15,000 which was the net result from applying the effective tax rate anticipated for fiscal 2014 to pretax loss for the first three quarters of fiscal 2014.

The Company's effective tax rate was -362% and 3% for the nine months ended June 30, 2015 and 2014, 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.

At June 30, 2015, the Company had an accrued liability of approximately $3,059,000 for uncertain and unrecognized tax benefits relating to an acquisition in fiscal 2013. The Company does not anticipate a significant increase or decrease in this liability in the next twelve months. If recognized, it is expected that these unrecognized tax benefits would not have a significant impact on the Company's effective tax rate. During the nine months ended June 30, 2015, interest expense of approximately $70,000 was recorded as "interest and penalty expense accrued for uncertain and unrecognized tax benefits" in the statement of Comprehensive Income (Loss).

Note 8 - 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, 2015 and September 30, 2014, an unrealized gain of $126,719,000 and $125,700,000, respectively, was recorded net of taxes of $49,085,000 and $48,896,000, 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, 2015 and September 30, 2014 are summarized below.

	Investments June 30, 2015 (Unaudited)			September 30, 2014		
	Aggregate fair value	Amortized/Adjusted cost basis	Pretax unrealized gains	Aggregate fair value	Amortized/Adjusted cost basis	Pretax unrealized gains
Marketable securities						
Common stocks	$174,112,000	$ 49,980,000	$124,132,000	$165,734,000	$ 43,042,000	$122,692,000
Bonds	7,525,000	4,938,000	2,587,000	7,942,000	4,934,000	3,008,000
Total	$181,637,000	$ 54,918,000	$126,719,000	$173,676,000	$ 47,976,000	$125,700,000

All investments are classified as "Current assets" because they are available for sale at any time. The bonds mature in 2039.

As of June 30, 2015, the Company performed separate evaluations for impaired equity securities to determine if the unrealized losses were other-than-temporary. This evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer and the Company's ability and intent to hold the securities until fair value recovers. The assessment of the ability and intent to hold these securities to recovery focuses on liquidity needs, asset/liability management objectives and securities portfolio objectives. Based on the results of the evaluations, the Company concluded that as of June 30, 2015, all unrealized losses related to the equity securities it owns were temporary.

Note 9 - Debt and Commitments and Contingencies

In December 2012, the Company borrowed from its investment margin account the purchase price of $14 million for the New Dawn acquisition, and in September 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 fluctuates based on the Federal Funds Rate plus 50 basis points with interest only payable monthly. The interest rate as of June 30, 2015 was 0.75%. These investment margin account borrowings do not mature.

The Company owns its facilities in Los Angeles and leases space for its other Daily Journal offices under operating leases which expire at various dates through fiscal 2020. The Company is responsible for a portion of maintenance, insurance and property tax expenses relating to these leased properties and certain other leased properties. Rental expenses for the nine-month periods ended June 30, 2015 and 2014 were $879,000 and $938,000, 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 or cash flows.

Note 10 - Operating Segments

The Company's reportable segments are: (i) the Traditional Business and (ii) Journal Technologies. All inter-segment transactions were eliminated. Summarized financial information concerning the Company's reportable segments is shown in the following table:

	Reportable Segments			
	Traditional Business	Journal Technologies	Non-operating items	Total
Nine months ended June 30, 2015				
Revenues				
Advertising	$7,954,000	$---	$---	$7,954,000
Circulation	4,429,000	---	---	4,429,000
Advertising service fees and other	2,040,000	---	---	2,040,000
Licensing and maintenance fees	---	10,752,000	---	10,752,000
Consulting fees	---	3,401,000	---	3,401,000
Other public service fees	---	4,636,000	---	4,636,000
Operating expenses	13,597,000	22,081,000	---	35,678,000
Income (loss) from operations	826,000	(3,292,000)	---	(2,466,000)
Dividends and interest income	---	---	2,865,000	2,865,000
Other income and capital gains	---	---	49,000	49,000
Interest expenses	---	---	(168,000)	(168,000)
Interest expense accrued for uncertain and unrecognized tax benefits	---	(70,000)	---	(70,000)
Pretax income (loss)	826,000	(3,362,000)	2,746,000	210,000
Income tax benefit	---	---	760,000	760,000
Net income (loss)	826,000	(3,362,000)	3,506,000	970,000
Total assets	15,144,000	46,419,000	181,637,000	243,200,000
Capital expenditures	315,000	118,000	---	433,000
Amortization of intangible assets	---	3,671,000	---	3,671,000
Nine months ended June 30, 2014				
Revenues				
Advertising	$8,620,000	$---	$---	$8,620,000
Circulation	4,518,000	---	---	4,518,000
Advertising service fees and other	2,104,000	---	---	2,104,000
Licensing and maintenance fees	---	9,318,000	---	9,318,000
Consulting fees	---	2,715,000	---	2,715,000
Other public service fees	---	4,647,000	---	4,647,000
Operating expenses	13,140,000	20,836,000	---	33,976,000
Income (loss) from operations	2,102,000	(4,156,000)	---	(2,054,000)
Dividends and interest income	---	---	2,100,000	2,100,000
Other income and capital gains	---	---	81,000	81,000

Interest expenses	---	---	(173,000)	(173,000)
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	---	(518,000)	---	(518,000)
Pretax income (loss)	2,102,000	(4,674,000)	2,008,000	(564,000)
Income tax benefit	---	---	15,000	15,000
Net income (loss)	2,102,000	(4,674,000)	2,023,000	(549,000)
Total assets	15,420,000	53,440,000	166,823,000	235,683,000
Capital expenditures	78,000	325,000	---	403,000
Amortization of intangible assets	---	3,642,000	---	3,642,000

	Reportable Segments Traditional Business	Journal Technologies	Non-operating items	Total
Three months ended June 30, 2015				
Revenues				
Advertising	$2,701,000	$---	$---	$2,701,000
Circulation	1,445,000	---	---	1,445,000
Advertising service fees and other	711,000	---	---	711,000
Licensing and maintenance fees	---	3,315,000	---	3,315,000
Consulting fees	---	791,000	---	791,000
Other public service fees	---	1,540,000	---	1,540,000
Operating expenses	4,421,000	7,215,000	---	11,636,000
Income (loss) from operations	436,000	(1,569,000)	---	(1,133,000)
Dividends and interest income	---	---	1,177,000	1,177,000
Other income and capital gains	---	---	11,000	11,000
Interest expenses	---	---	(56,000)	(56,000)
Interest expense accrued for uncertain and unrecognized tax benefits	---	(26,000)	---	(26,000)
Pretax income (loss)	436,000	(1,595,000)	1,132,000	(27,000)
Income tax expense	---	---	60,000	60,000
Net income (loss)	436,000	(1,595,000)	1,192,000	33,000
Total assets	15,144,000	46,419,000	181,637,000	243,200,000
Capital expenditures	9,000	38,000	---	47,000
Amortization of intangible assets	---	1,223,000	---	1,223,000
Three months ended June 30, 2014				
Revenues				
Advertising	$2,976,000	$---	$---	$2,976,000
Circulation	1,502,000	---	---	1,502,000
Advertising service fees and other	770,000	---	---	770,000
Licensing and maintenance fees	---	3,175,000	---	3,175,000
Consulting fees	---	1,189,000	---	1,189,000
Other public service fees	---	1,534,000	---	1,534,000
Operating expenses	4,277,000	7,133,000	---	11,410,000
Income (loss) from operations	971,000	(1,235,000)	---	(264,000)
Dividends and interest income	---	---	825,000	825,000
Other income and capital gains	---	---	26,000	26,000
Interest expenses	---	---	(56,000)	(56,000)
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	---	(518,000)	---	(518,000)
Pretax income (loss)	971,000	(1,753,000)	795,000	13,000
Income tax benefit	---	---	25,000	25,000
Net income (loss)	971,000	(1,753,000)	820,000	38,000
Total assets	15,420,000	53,440,000	166,823,000	235,683,000
Capital expenditures	26,000	168,000	---	194,000
Amortization of intangible assets	---	1,223,000	---	1,223,000

Note 11 - 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

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, and (2) Journal Technologies which supplies case management software systems and related products to courts and other justice agencies, including administrative law organizations, county governments and bar associations. The Company also generates non-operating revenues in the form of dividends and interest income, and other income and capital gains from its ownership of marketable securities.

Overall Results

During the nine months ended June 30, 2015, consolidated pretax income increased by $774,000 (137%) to $210,000 from a loss of $564,000 in the prior year period. The Traditional Business segment's pretax income decreased by $1,276,000 (61%) to $826,000 from $2,102,000, primarily resulting from decreases in trustee sale notice and related service fee revenues of $603,000, commercial advertising revenues of $155,000 and circulation revenues of $89,000, and increased expenses of $457,000 primarily for legal and accounting fees. Journal Technologies' business segment pretax loss decreased by $1,312,000 (28%) to $3,362,000 from $4,674,000 primarily resulting from the prior June's accrual of $479,000 for the possible penalty associated with the Company's uncertain and unrecognized tax benefits and this year-to-date's additional revenues, as further discussed below. The Company's non-operating income, net of expenses, increased by $1,186,000 (80%) to $2,676,000 primarily because of additional dividends and interest income from the Company's marketable securities.

Additional detail about each of the Company's reportable segments, its non-operating income and expenses, and its comprehensive income is set forth below:

Overall Operating Results (000)
For the nine months ended June 30, 2015

	Reportable Segments							
	Traditional Business		Journal Technologies		Non-operating income and expenses		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues								

Advertising	$7,954	$8,620	$---	$---	$---	$---	$7,954	$8,620
Circulation	4,429	4,518	---	---	---	---	4,429	4,518
Advertising service fees and other	2,040	2,104	---	---	---	---	2,040	2,104
Licensing and maintenance fees	---	---	10,752	9,318	---	---	10,752	9,318
Consulting fees	---	---	3,401	2,715	---	---	3,401	2,715
Other public service fees	---	---	4,636	4,647	---	---	4,636	4,647
	14,423	15,242	18,789	16,680	---	---	33,212	31,922
Expenses								
Salaries and employee benefits	7,315	7,310	12,425	11,722	---	---	19,740	19,032
Amortization of intangible assets	---	---	3,671	3,642	---	---	3,671	3,642
Others	6,282	5,830	5,985	5,472	---	---	12,267	11,302
	13,597	13,140	22,081	20,836	---	---	35,678	33,976
Income (loss) from operations	826	2,102	(3,292)	(4,156)	---	---	(2,466)	(2,054)
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	---	---	(70)	(518)	---	---	(70)	(518)
Other income (net), primarily dividends and interest income	---	---	---	---	2,746	2,008	2,746	2,008
Pretax income (loss)	$826	$2,102	$(3,362)	$(4,674)	$2,746	$2,008	$210	$(564)

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Comprehensive Income

	Nine months ended June 30	
	2015	2014
Net income (loss)	$970,000	$(549,000)
Net change in unrealized appreciation of investments (net of taxes)	833,000	18,177,000
	$1,803,000	$17,628,000

At June 30, 2015, the aggregate fair market value of the Company's marketable securities was $181,637,000. These securities had approximately $126,719,000 of unrealized gains before taxes of $49,085,000 and generated approximately $2,865,000 in dividends and interest income during the period, which lowers the Company's effective income tax rate because of the dividends received deduction.

Consolidated revenues were $33,212,000 and $31,922,000 for the nine months ended June 30, 2015 and 2014, respectively. This increase of $1,290,000 (4%) was primarily from additional Journal Technologies licensing and maintenance and consulting revenues of $2,120,000, partially offset by the reduction in trustee sale notice and related service fee revenues of $603,000, commercial advertising revenues of $155,000 and circulation revenues of $89,000. The Company's revenues derived from Journal Technologies' operations constituted about 57% and 52% of the Company's total revenues for the nine months ended June 30, 2015 and 2014, respectively. (Consolidated revenues were $10,503,000 and $11,146,000 for the three months ended June 30, 2015 and 2014, respectively.)

Consolidated operating costs and expenses increased by $1,702,000 (5%) to $35,678,000 from $33,976,000, primarily resulting from additional expenses for Journal Technologies. Total personnel costs increased by $708,000 (4%) to $19,740,000 from $19,032,000 including additional personnel costs for Journal Technologies of $703,000. Other general and administrative expenses increased by $919,000 (14%) to $7,411,000 from $6,492,000 mainly because of increased travel and business promotion expenses and additional legal and accounting fees. (Consolidated operating costs were $11,636,000 and $11,410,000 for the three months ended June 30, 2015 and 2014, respectively.)

There was net income per share of $0.70 in the nine months ended June 30, 2015, as compared with a net loss of $0.40 per share in the prior year period.

The Traditional Business

The Traditional Business segment advertising revenues, which declined by $666,000 (8%) to $7,954,000 from $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 20% during the nine months ended June 30, 2015 as compared to the prior year period and accounted for almost all of the decline in revenues. Because this slowing is expected to continue, there will be fewer foreclosure notice advertisements and declining revenues in fiscal 2015, and the Company’s print-based earnings will also decline significantly because it will be impractical for the Company to offset all revenue loss by expense reduction. The Company's smaller newspapers, those other than the Los Angeles and San Francisco Daily Journals ("The Daily Journals"), accounted for about 92% of the total public notice advertising revenues in the nine months ended June 30, 2015. Public notice advertising revenues and related advertising and other service fees constituted about 22% of the Company's total revenues during such 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.

Commercial advertising decreased by $155,000 (5%) to $2,730,000 from $2,885,000 because of the continuing challenges in the commercial advertising business. The Daily Journals accounted for about 86% of the Company's total circulation revenues, which declined by $89,000 (2%) to $4,429,000 from $4,518,000. The court rule and judicial profile services generated about 10% of the total circulation revenues, with the other newspapers and services accounting for the balance. Advertising service fees and other are Traditional Business segment revenues, 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 Traditional Business segment operating expenses increased by $457,000 (3%) to $13,597,000 from $13,140,000 primarily due to additional legal and accounting fees.

Journal Technologies

Journal Technologies' revenues increased by $2,109,000 (13%) to $18,789,000 from $16,680,000 in the prior year period. Licensing and maintenance fees increased by $1,434,000 (15%) to $10,752,000 from $9,318,000. Consulting fees increased by $686,000 (25%) to $3,401,000 from $2,715,000. (Consulting fees were $791,000 and $1,189,000 for the three months ended June 30, 2015 and 2014, respectively.) In most cases, revenues from new installation projects will only be recognized, if at all, upon completion and acceptance of the services by the various customers. Deferred revenues on installation contracts primarily represent the fair value of advances from customers of Journal Technologies for software licenses and installation services. 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 license and maintenance contracts represent prepayments of annual license and maintenance fees.

Journal Technologies' operating expenses, which included the amortization of intangible assets of $3,671,000 and $3,642,000 in the nine-month periods ended June 30, 2015 and 2014, respectively, increased by $1,245,000 (6%) to $22,081,000 from $20,836,000 primarily due to increased personnel costs of $703,000 and travel expenses of $436,000. Identifiable intangible assets, including customer relationships and developed technology, are being amortized on a straight-line basis over five years due to the short life cycle of technology that customer relationships depend on and over 15 years for tax purposes. Goodwill, which is not amortized for financial statement purposes, is amortized over a 15-year period for tax purposes. Goodwill represents the expected synergies in expanding the Company's software business. Goodwill is 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 include the current year's business profitability before intangible amortization, fluctuations of revenues, changes in the market place, the status of 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 impact earnings at least through the foreseeable future.

Taxes

Because a small change in ordinary income produces a significant change in the annual effective rate due to significant permanent book and tax differences, primarily for the dividends received deduction, it was impractical for the Company to compute a reliable estimate using the annual effective rate method. As such, the Company computed its estimate of income taxes on each component of taxable income; ordinary income, the dividends received deduction and other permanent book and tax differences, and recorded each in the period in which it occurred.

For the nine months ended June 30, 2015, the Company recorded an income tax benefit of $760,000 on pretax income of $210,000. The effective tax rate was lower than the statutory rate primarily due to the dividends received deduction, the domestic production activity deduction and a discrete benefit of about $400,000 related to the California Enterprise Zone credits. On pretax loss of $564,000 for the nine months ended June 30, 2014, the Company recorded a tax benefit of $15,000 which was the net result from applying the effective tax rate anticipated for fiscal 2014 to pretax loss for the first three quarters of fiscal 2014. The Company’s effective tax rate was -362% and 3% for the nine months ended June 30, 2015 and 2014, respectively. (Income tax benefits were $60,000 for the three months ended June 30, 2015 and $25,000 for the three months ended June 30, 2014.) 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.

At June 30, 2015, the Company had an accrued liability of approximately $3,059,000 for uncertain and unrecognized tax benefits relating to an acquisition in fiscal 2013. The Company does not anticipate a significant increase or decrease in this liability in the next twelve months. If recognized, it is expected that these unrecognized tax benefits would not have a significant impact on the Company’s effective tax rate. During the nine months ended June 30, 2015, interest expense of approximately $70,000 was recorded as “interest and penalty expense accrued for uncertain and unrecognized tax benefits” in the statement of Comprehensive Income (Loss).

The Company has presented the above analysis to discuss the material changes occurred between the periods presented in the unaudited interim consolidated financial statements. We believe the causes of material changes for the nine-month and the three-month periods are identical in substance and thus combine our analysis and discussion for these periods with parenthesis quantitative disclosure of changes in the three-month period where necessary.

Liquidity and Capital Resources

During the nine months ended June 30, 2015, the Company's cash and cash equivalents and marketable security positions increased by $5,124,000 to $194,210,000. After selling marketable securities for $4,044,000 and realizing a pretax gain of approximately $4,000, cash and cash equivalents were used primarily for the purchase of other marketable securities of $10,977,000 and capital assets, including computer software and office equipment of about $433,000. The investments in marketable securities, which had an adjusted cost basis of approximately $54,918,000 and had a market value of about $181,637,000 at June 30, 2015, generated approximately $2,865,000 in dividends and interest income, which lowers the Company’s effective income tax rate because of the dividends received deduction. As of June 30, 2015, there were unrealized investment pretax gains of $126,719,000 as compared to $125,700,000 as of September 30, 2014. Most of the unrealized gains were in the common stocks of three U.S. financial institutions.

The cash provided by operating activities of $4,529,000 included decreases in deferred installation contracts and license and maintenance agreements of $4,612,000, partially offset by increases in deferred subscriptions of $543,000. Cash flows from operating activities increased by $714,000 during the nine months ended June 30, 2015 as compared to the prior year period primarily resulting from increases in net income of $1,519,000.

As of June 30, 2015, the Company had working capital of $131,661,000, including the liabilities for deferred subscriptions and deferred installation contracts and license and maintenance agreements of $16,822,000, which are scheduled to be earned within one year, and the deferred tax liability of $49,085,000 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 may or may not have the ability to borrow against its marketable securities on favorable terms as it did for prior 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 management and the Board of Directors deem 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 of June 30, 2015, the investments were concentrated in just seven 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.

Critical Accounting Policies and Estimates

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 revenue recognition, accounting for software costs, fair value measurement and disclosures (including for the long-term Incentive Plan liabilities), accounting for business combinations, testing for goodwill impairment and income taxes are critical accounting policies and estimates.

The Company's critical accounting policies are detailed in its Annual Report on Form 10-K for the year ended September 30, 2014. The above discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and 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; Journal Technologies’ reliance on professional services engagements with justice agencies, including California courts, for a substantial portion of its 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; possible security breaches of the Company’s software or websites; the Company’s reliance on its president and chief executive officer; changes in accounting guidance; material weaknesses in the Company’s internal control over financial reporting, and its decision to restate its Form 10-Q for the third quarter 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, 2014.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding the Company’s market risk, refer to Item 7A – Quantitative and Qualitative Disclosures about Market Risk in the Company’s Form 10-K for the fiscal year ended September 30, 2014. There have been no material changes to the Company’s market risk exposures since September 30, 2014.

Item 4. CONTROLS AND PROCEDURES

In light of the material weaknesses in the Company's internal control over financial reporting discussed in the Company's Form 10-K for the fiscal year ended September 30, 2014, management concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2015. While the Company has been analyzing possible remedial steps, there were still material weaknesses existing as of June 30, 2015, and 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 nine months ended June 30, 2015.

PART II

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: August 7, 2015