

DAILY JOURNAL CORP  
Form 10-Q  
May 10, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-14665

DAILY JOURNAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina  
(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)

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(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.

<u>Class</u>	<u>Outstanding at April 30,</u>
Common Stock, par value \$ .01 per share	<u>2016</u> 1,380,746 shares



DAILY JOURNAL CORPORATION

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## PART I

## Item 1. FINANCIAL STATEMENTS

## DAILY JOURNAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	<b>March 31</b>	<b>September 30</b>
	2016	2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$9,228,000	\$ 15,617,000
Marketable securities at fair value, including common stocks of \$154,960,000 and bonds of \$7,571,000 at March 31, 2016 and common stocks of \$158,705,000 and bonds of \$7,336,000 at September 30, 2015	162,531,000	166,041,000
Accounts receivable, less allowance for doubtful accounts of \$250,000 at March 31, 2016 and September 30, 2015	6,123,000	5,673,000
Inventories	38,000	48,000
Prepaid expenses and other assets	664,000	684,000
Income tax receivable	352,000	765,000
Total current assets	178,936,000	188,828,000
Property, plant and equipment, at cost		
Land, buildings and improvements	16,283,000	12,773,000
Furniture, office equipment and computer software	2,754,000	2,655,000
Machinery and equipment	1,864,000	1,864,000
	20,901,000	17,292,000
Less accumulated depreciation	(8,641,000 )	(8,335,000 )
	12,260,000	8,957,000
Intangibles, net	10,472,000	12,990,000
Goodwill	13,400,000	13,400,000
Deferred income taxes, net	6,894,000	4,021,000
	\$ 221,962,000	\$ 228,196,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$2,617,000	\$4,212,000
Accrued liabilities	2,790,000	2,919,000
Note payable collateralized by real estate	107,000	---
Deferred subscriptions	3,491,000	3,474,000
Deferred installation contracts	6,133,000	7,820,000

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Deferred maintenance agreements and others	6,796,000	6,815,000
Deferred income taxes, net	39,798,000	40,641,000
Total current liabilities	61,732,000	65,881,000
Long term liabilities		
Investment margin account borrowings	29,493,000	29,493,000
Note payable collateralized by real estate	2,127,000	---
Deferred maintenance agreements	234,000	551,000
Income tax payable	2,866,000	2,991,000
Accrued interest and penalty for uncertain and unrecognized tax benefits	682,000	633,000
Accrued liabilities	102,000	47,000
Total long term liabilities	35,504,000	33,715,000
Commitments and contingencies (Note 10)	---	---
Shareholders' equity		
Preferred stock, \$.01 par value, 5,000,000 shares authorized and no shares issued	---	---
Common stock, \$.01 par value, 5,000,000 shares authorized; 1,805,053 shares issued, including 424,307 treasury shares, at March 31, 2016 and September 30, 2015	14,000	14,000
Additional paid-in capital	1,755,000	1,755,000
Retained earnings	59,368,000	59,111,000
Accumulated other comprehensive income	63,589,000	67,720,000
Total shareholders' equity	124,726,000	128,600,000
	\$221,962,000	\$228,196,000

See accompanying Notes to Consolidated Financial Statements

## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three months	
	ended March 31	
	2016	2015
Revenues		
Advertising	\$ 2,346,000	\$ 2,549,000
Circulation	1,458,000	1,460,000
Advertising service fees and other	644,000	650,000
Licensing and maintenance fees	4,107,000	3,680,000
Consulting fees	1,664,000	1,418,000
Other public service fees	1,223,000	1,635,000
	11,442,000	11,392,000
Costs and expenses		
Salaries and employee benefits	7,029,000	6,771,000
Other outside services	813,000	835,000
Postage and delivery expenses	292,000	312,000
Newsprint and printing expenses	219,000	258,000
Depreciation and amortization	1,428,000	1,367,000
Other general and administrative expenses	2,237,000	2,815,000
	12,018,000	12,358,000
Loss from operations	(576,000 )	(966,000 )
Other income (expense)		
Dividends and interest income	833,000	860,000
Other income and capital gains	14,000	14,000
Interest expense	(94,000 )	(55,000 )
	(25,000 )	(24,000 )

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Interest expense accrued for uncertain and unrecognized tax benefits			
Income (loss) before income taxes	152,000	(171,000	)
Benefit from (provision for) income taxes	55,000	675,000	
Net income	\$ 207,000	\$ 504,000	
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746	
Basic and diluted net income per share	\$ .15	\$ .37	
Comprehensive loss			
Net income	\$ 207,000	\$ 504,000	
Net decrease in unrealized appreciation of marketable securities (net of taxes)	(10,058,000 )	(802,000 )	
	\$ (9,851,000 )	\$ (298,000 )	

See accompanying Notes to Consolidated Financial Statements.



## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Six months	
	ended March 31	
	2016	2015
Revenues		
Advertising	\$4,667,000	\$5,253,000
Circulation	2,964,000	2,984,000
Advertising service fees and other	1,294,000	1,335,000
Licensing and maintenance fees	7,754,000	7,437,000
Consulting fees	3,040,000	2,610,000
Other public service fees	2,538,000	3,096,000
	22,257,000	22,715,000
Costs and expenses		
Salaries and employee benefits	13,677,000	13,383,000
Other outside services	1,677,000	1,682,000
Postage and delivery expenses	578,000	644,000
Newsprint and printing expenses	436,000	600,000
Depreciation and amortization	2,843,000	2,727,000
Other general and administrative expenses	4,584,000	5,006,000
	23,795,000	24,042,000
Loss from operations	(1,538,000 )	(1,327,000 )
Other income (expense)		
Dividends and interest income	1,736,000	1,688,000
Other income and capital gains	30,000	32,000
Interest expenses	(162,000 )	(112,000 )
Interest expense accrued for uncertain and unrecognized tax benefits	(49,000 )	(44,000 )
Income before taxes	17,000	237,000
Benefit from income taxes	240,000	700,000
Net income	\$257,000	\$937,000
Weighted average number of common shares outstanding - basic and diluted	1,380,746	1,380,746
Basic and diluted net income per share	\$.19	\$.68
Comprehensive loss		
Net income	\$257,000	\$937,000
Net decrease in unrealized appreciation of marketable securities (net of taxes)	(4,131,000 )	(4,444,000 )
	\$(3,874,000 )	\$(3,507,000 )

See accompanying Notes to Consolidated Financial Statements.

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## DAILY JOURNAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months	
	ended March 31	
	2016	2015
Cash flows from operating activities		
Net income	\$257,000	\$937,000
Adjustments to reconcile net income to net cash used for (provided by) operations		
Depreciation and amortization	2,843,000	2,727,000
Gains on sales of marketable securities	---	(4,000 )
Deferred income taxes	(498,000 )	(862,000 )
Discounts earned on bonds	(1,000 )	(2,000 )
Changes in assets and liabilities		
(Increase) decrease in current assets		
Accounts receivable, net	(450,000 )	2,003,000
Inventories	10,000	13,000
Prepaid expenses and other assets	20,000	139,000
Income tax receivable	413,000	1,183,000
Increase (decrease) in liabilities		
Accounts payable	(1,595,000 )	23,000
Accrued liabilities	(25,000 )	(31,000 )
Income taxes	(125,000 )	(123,000 )
Deferred subscriptions	17,000	11,000
Deferred maintenance agreements and others	(336,000 )	(1,578,000 )
Deferred installation contracts	(1,687,000 )	(672,000 )
Net cash (used for) provided by operating activities	(1,157,000 )	3,764,000
Cash flows from investing activities		
Sales of marketable securities	---	4,044,000
Purchases of marketable securities	(3,838,000 )	(10,977,000 )
Purchases of property, plant and equipment, including the Logan Utah office building	(3,628,000 )	(386,000 )
Net cash used for investing activities	(7,466,000 )	(7,319,000 )
Cash flows from financing activities		
Note payable collateralized by real estate	2,260,000	---
Payment of loan principal	(26,000 )	---
Net cash provided by financing activities	2,234,000	---
Decrease in cash and cash equivalents	(6,389,000 )	(3,555,000 )
Cash and cash equivalents		

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Beginning of period	15,617,000	15,410,000
End of period	\$9,228,000	\$11,855,000
Interest paid during period	\$158,000	\$112,000
Net income taxes refunded during period	\$(29,000)	\$(899,000)

See accompanying Notes to Consolidated Financial Statements.

DAILY JOURNAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - The Corporation and Operations

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

Journal Technologies, Inc. (“Journal Technologies”), a wholly-owned subsidiary, includes as of October 1, 2014, the combined operations of Sustain Technologies, Inc. (“Sustain”), a wholly-owned subsidiary since 2008; New Dawn Technologies, Inc. (“New Dawn”), acquired in December 2012; and ISD Technologies, Inc. (“ISD”), acquired in September 2013. Journal Technologies supplies case management software systems and related products to courts, prosecutor and public defender offices, probation departments and other justice agencies, including administrative law organizations, city and county governments and bar associations. These organizations use the Journal Technologies family of products to help manage cases and information electronically, to interface with other critical justice partners and to extend electronic services to bar members and the public, including a website to pay traffic citations online. These products are licensed to more than 500 organizations in 41 states and internationally.

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

Note 2 - Basis of Presentation

In the opinion of the Company, the accompanying interim unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of its financial position as of March 31, 2016, its results of operations for the three- and six-month periods ended March 31, 2016 and 2015 and its cash flows for the six-month periods ended March 31, 2016 and 2015. The results of operations for the three and six months ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year.

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The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

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

## Note 3 - Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This update requires that all leases be recognized by lessees on the balance sheet through a right-of-use asset and corresponding lease liability, including today's operating leases. This standard is required to be adopted for annual periods beginning after December 15, 2018, including interim periods within that annual period, which is the Company's fiscal year 2020. The Company has not yet evaluated what impact, if any, the adoption of this guidance may have on its financial condition, results of operations or disclosures.

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

## Note 4 - Basic and Diluted Income Per Share

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

## Note 5 - Intangible Assets

**Intangible Assets**

	March 31, 2016			September 30, 2015		
	Customer	Developed	Total	Customer	Developed	Total
	Relationships	Technology		Relationships	Technology	
Gross intangible	\$22,104,000	\$2,525,000	\$24,629,000	\$22,104,000	\$2,525,000	\$24,629,000
Accumulated amortization	(12,672,000)	(1,485,000)	(14,157,000)	(10,406,000)	(1,233,000)	(11,639,000)
	\$9,432,000	\$1,040,000	\$10,472,000	\$11,698,000	\$1,292,000	\$12,990,000

These identifiable intangible assets are being amortized over five years or less for financial statement purposes due to the short life cycle of technology that customer relationships depend on, and over a 15-year period on a straight-line basis for tax purposes. The intangible amortization expenses were \$2,518,000 and \$1,259,000 for the six- and three-month periods ended March 31, 2016, respectively, as compared with \$2,448,000 and \$1,224,000 in the prior year periods.

Note 6 – Goodwill

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

In addition, ASU 2011-08, *Intangible – Goodwill and Others -- Testing Goodwill for Impairment*, allows for the option of performing a qualitative assessment before calculating the fair value of a reporting unit. If it is determined based on qualitative factors that there is no impairment to goodwill, then the fair value of a reporting unit is not needed. If a quantitative analysis is required and the unit's carrying amount exceeds its fair value, then the second step is performed to measure the amount of potential impairment. The Company's annual goodwill impairment analysis in fiscal 2015 did not result in an impairment charge based on the qualitative assessment. There was no indicator of impairment during the six-month periods ended March 31, 2016 and 2015.



#### Note 7 – 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.

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 Journal Technologies 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.

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. Approximately 60% and 58% of the Company’s revenues during the six months ended March 31, 2016 and 2015, respectively, were derived from Journal Technologies.

#### Note 8 - Income Taxes

For the six months ended March 31, 2016, the Company recorded an income tax benefit of \$240,000 on pretax profit of \$17,000. The income tax benefit was the result of applying the effective tax rate anticipated for fiscal 2016 to pretax income for the six-month period ended March 31, 2016. The effective tax rate was lower than the statutory rate primarily due to the dividends received deduction and the domestic production activity deduction. On pretax income of \$237,000 for the six months ended March 31, 2015, the Company recorded an income tax benefit of \$700,000 which was the net result of applying the effective tax rate anticipated for fiscal 2015 to pretax income for the six months ended March 31, 2015. The Company’s effective tax rate was -1,412% and -295% for the six months ended March 31, 2016 and 2015, 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 2012 with regard to federal income taxes and fiscal 2011 for state income taxes.

At March 31, 2016, the Company had an accrued liability of approximately \$2,866,000 for uncertain and unrecognized tax benefits relating to an acquisition in fiscal 2013, after a reduction of \$378,000 resulting from the recognition of deferred revenues and from the amortization of goodwill for tax purposes. 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 to the Company's effective tax rate. During the six-month periods ended March 31, 2016 and 2015, interest expenses of approximately \$49,000 and \$44,000, respectively, were recorded as "interest expense accrued for uncertain and unrecognized tax benefits" in the Consolidated Statements of Comprehensive Loss.

## Note 9 - 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 March 31, 2016 and September 30, 2015, an unrealized gain of \$104,149,000 and \$111,498,000, respectively, was recorded before taxes of \$40,060,000 and \$43,278,000, 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 March 31, 2016 and September 30, 2015 are summarized below.

	March 31, 2016 (Unaudited)			September 30, 2015		
	Aggregate fair value	Amortized/ Adjusted cost basis	Pretax unrealized gains	Aggregate fair value	Amortized/ Adjusted cost basis	Pretax unrealized gains
Marketable securities						
Common stocks	\$154,960,000	\$53,442,000	\$101,518,000	\$158,705,000	\$49,604,000	\$109,101,000
Bonds	7,571,000	4,940,000	2,631,000	7,336,000	4,939,000	2,397,000
Total	\$162,531,000	\$58,382,000	\$104,149,000	\$166,041,000	\$54,543,000	\$111,498,000

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

As of March 31, 2016, the Company performed an evaluation for an equity security with a fair value below cost to determine if the unrealized loss was 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 security until fair value recovers. The assessment of the ability and intent to hold this security to recovery focuses on liquidity needs, asset/liability management objectives and security portfolio objectives. Based on the result of the evaluation, the Company concluded that as of March 31, 2016, the unrealized loss related to the equity security it owns was temporary.

## Note 10 - 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 March 31, 2016 was 1%. These investment margin account borrowings do not mature.

In November 2015, the Company purchased a 30,700 square foot office building constructed in 1998 on about 3.6 acres in Logan, Utah that had been previously leased by Journal Technologies. The Company paid \$1.24 million and financed the balance with a real estate bank loan of \$2.26 million which bears a fixed interest rate of 4.66% and is repayable in equal monthly installments of about \$17,600 through 2030. This loan is secured by the Logan facility and can be paid off at any time without prepayment penalty.

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 were \$415,000 and \$165,000 for the six- and three-month periods ended March 31, 2016, respectively, as compared with \$588,000 and \$305,000 in the prior year periods.

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 11 - 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		Corporate income and expenses	Total
	Traditional	Journal		
	Business	Technologies		
<u>Six months ended March 31, 2016</u>				
Revenues				
Advertising	\$4,667,000	\$---	\$---	\$4,667,000
Circulation	2,964,000	---	---	2,964,000
Advertising service fees and other	1,294,000	---	---	1,294,000
Licensing and maintenance fees	---	7,754,000	---	7,754,000
Consulting fees	---	3,040,000	---	3,040,000
Other public service fees	---	2,538,000	---	2,538,000
Operating expenses	8,775,000	15,020,000	---	23,795,000
Income (loss) from operations	150,000	(1,688,000 )	---	(1,538,000 )
Dividends and interest income	---	---	1,736,000	1,736,000
Other income	21,000	---	9,000	30,000
Interest expenses on note payable collateralized by real estate and margin loans	(36,000 )	---	(126,000 )	(162,000 )
Interest expense accrued for uncertain and unrecognized tax benefits	---	(49,000 )	---	(49,000 )
Pretax income (loss)	135,000	(1,737,000 )	1,619,000	17,000
Income tax (expense) benefit	(165,000 )	670,000	(265,000 )	240,000
Net income (loss)	(30,000 )	(1,067,000 )	1,354,000	257,000
Total assets	16,946,000	42,485,000	162,531,000	221,962,000
Capital expenditures, including purchase of Logan building	3,625,000	3,000	---	3,628,000
Amortization of intangible assets	71,000	2,447,000	---	2,518,000

	Reportable Segments		Corporate income and expenses	Total
	Traditional	Journal		
	Business	Technologies		
<u>Six months ended March 31, 2015</u>				
Revenues				
Advertising	\$5,253,000	\$---	\$---	\$5,253,000

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Circulation	2,984,000	---	---	2,984,000
Advertising service fees and other	1,335,000	---	---	1,335,000
Licensing and maintenance fees	---	7,437,000	---	7,437,000
Consulting fees	---	2,610,000	---	2,610,000
Other public service fees	---	3,096,000	---	3,096,000
Operating expenses	9,176,000	14,866,000	---	24,042,000
Income (loss) from operations	396,000	(1,723,000 )	---	(1,327,000 )
Dividends and interest income	---	---	1,688,000	1,688,000
Other income and capital gains	---	---	32,000	32,000
Interest expenses on margin loans	---	---	(112,000 )	(112,000 )
Interest expense accrued for uncertain and unrecognized tax benefits	---	(44,000 )	---	(44,000 )
Pretax income (loss)	396,000	(1,767,000 )	1,608,000	237,000
Income tax (expense) benefit	310,000	670,000	(280,000 )	700,000
Net income (loss)	706,000	(1,097,000 )	1,328,000	937,000
Total assets	14,012,000	47,718,000	172,865,000	234,595,000
Capital expenditures	306,000	80,000	---	386,000
Amortization of intangible assets	---	2,448,000	---	2,448,000

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	Reportable Segments		Corporate income and expenses	Total
	Traditional	Journal		
	Business	Technologies		
<u>Three months ended March 31, 2016</u>				
Revenues				
Advertising	\$2,346,000	\$---	\$---	\$2,346,000
Circulation	1,458,000	---	---	1,458,000
Advertising service fees and other	644,000	---	---	644,000
Licensing and maintenance fees	---	4,107,000	---	4,107,000
Consulting fees	---	1,664,000	---	1,664,000
Other public service fees	---	1,223,000	---	1,223,000
Operating expenses	4,422,000	7,596,000	---	12,018,000
Income (loss) from operations	26,000	(602,000 )	---	(576,000 )
Dividends and interest income	---	---	833,000	833,000
Other income	14,000	---	---	14,000
Interest expenses on note payable collateralized by real estate and margin loans	(27,000 )	---	(67,000 )	(94,000 )
Interest expense accrued for uncertain and unrecognized tax benefits	---	(25,000 )	---	(25,000 )
Pretax income (loss)	13,000	(627,000 )	766,000	152,000
Income tax (expense) benefit	(115,000 )	275,000	(105,000 )	55,000
Net income (loss)	(102,000 )	(352,000 )	661,000	207,000
Total assets	16,946,000	42,485,000	162,531,000	221,962,000
Capital expenditures	84,000	3,000	---	87,000
Amortization of intangible assets	36,000	1,223,000	---	1,259,000

	Reportable Segments		Corporate income and expenses	Total
	Traditional	Journal		
	Business	Technologies		
<u>Three months ended March 31, 2015</u>				
Revenues				
Advertising	\$2,549,000	\$---	\$---	\$2,549,000
Circulation	1,460,000	---	---	1,460,000
Advertising service fees and other	650,000	---	---	650,000
Licensing and maintenance fees	---	3,680,000	---	3,680,000
Consulting fees	---	1,418,000	---	1,418,000
Other public service fees	---	1,635,000	---	1,635,000
Operating expenses	4,553,000	7,805,000	---	12,358,000
Income (loss) from operations	106,000	(1,072,000 )	---	(966,000 )
Dividends and interest income	---	---	860,000	860,000
Other income and capital gains	---	---	14,000	14,000
Interest expenses on margin loans	---	---	(55,000 )	(55,000 )



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Interest expense accrued for uncertain and unrecognized tax benefits	---	(24,000 )	---	(24,000 )
Pretax income (loss)	106,000	(1,096,000 )	819,000	(171,000 )
Income tax (expense) benefit	400,000	420,000	(145,000 )	675,000
Net income (loss)	506,000	(676,000 )	674,000	504,000
Total assets	14,012,000	47,718,000	172,865,000	234,595,000
Capital expenditures	248,000	69,000	---	317,000
Amortization of intangible assets	---	1,224,000	---	1,224,000

Note 12 - 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 publishing and related services that the Company had before 1999 when it purchased a majority interest in Sustain, and (2) Journal Technologies, Inc. ("Journal Technologies"), a wholly-owned subsidiary which supplies case management software systems and related products to courts, prosecutor and public defender offices, probation departments and other justice agencies, including administrative law organizations, city and county governments and bar associations.

Comparable six-month periods ended March 31, 2016 and March 31, 2015

Consolidated revenues were \$22,257,000 and \$22,715,000 for the six months ended March 31, 2016 and 2015, respectively. This decrease of \$458,000 (2%) was primarily from the reduction in The Traditional Business's trustee sale notice and related service fee revenues of \$352,000 and commercial advertising revenues of \$418,000 (primarily due to the discontinuance of publishing the California Lawyer magazine), and Journal Technologies' public service fees of \$558,000 primarily due to a reduction in the number of traffic tickets processed on a website for the public to pay traffic citations online and an Amnesty Program that reduces traffic ticket fines, partially offset by increased Journal Technologies' license and maintenance fees of \$317,000 and consulting fees of \$430,000. The Company's revenues derived from Journal Technologies' operations constituted about 60% and 58% of the Company's total revenues for the six months ended March 31, 2016 and 2015, respectively.

Consolidated operating costs and expenses decreased by \$247,000 (1%) to \$23,795,000 from \$24,042,000, primarily resulting from reduced expenses for the Traditional Business, partially offset by additional expenses for Journal Technologies. Total personnel costs increased by \$294,000 (2%) to \$13,677,000 from \$13,383,000 primarily resulting from added personnel for Journal Technologies. Postage and delivery expenses decreased by \$66,000 (10%) to \$578,000 from \$644,000, and newsprint and printing expenses decreased by \$164,000 (27%) to \$436,000 from \$600,000 primarily because of the discontinuance of publishing the California Lawyer magazine effective October 1, 2015. Other general and administrative expenses decreased by \$422,000 (8%) to \$4,584,000 from \$5,006,000 mainly because of decreased rent, legal, accounting and other professional service fees, partially offset by increased travel costs for installation services and selling expenses for Journal Technologies. Depreciation and amortization costs, which included the amortization of Journal Technologies' intangible assets of \$2,447,000 and \$2,448,000 for the six-month periods ended March 31, 2016 and 2015, respectively, increased by \$116,000 (4%) to \$2,843,000 from \$2,727,000 mainly resulting from the additional depreciation expense for the recently acquired Logan, Utah office building.

The Company's non-operating income, net of expenses, decreased by \$9,000 to \$1,555,000 from \$1,564,000 primarily because of additional interest expenses for the Company's real estate loan. During the six months ended March 31, 2016, consolidated pretax income was \$17,000 as compared with \$237,000 in the prior year period.

There was net income of \$257,000 (\$0.19 per share) for the six months ended March 31, 2016 as compared with \$937,000 (\$0.68 per share) in the prior year period.

At March 31, 2016, the aggregate fair market value of the Company's marketable securities was \$162,531,000. These securities had approximately \$104,149,000 of unrealized gains before taxes of \$40,060,000 and generated approximately \$1,736,000 in dividends and interest income during the six months ended March 31, 2016, 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.

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

### Overall Financial Results (000)

For the six months ended March 31

	Reportable Segments				Corporate		Total	
	Traditional		Journal		income and			
	Business		Technologies		expenses			
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues								
Advertising	\$4,667	\$5,253	\$---	\$---	\$---	\$---	\$4,667	\$5,253
Circulation	2,964	2,984	---	---	---	---	2,964	2,984
Advertising service fees and other	1,294	1,335	---	---	---	---	1,294	1,335
Licensing and maintenance fees	---	---	7,754	7,437	---	---	7,754	7,437
Consulting fees	---	---	3,040	2,610	---	---	3,040	2,610
Other public service fees	---	---	2,538	3,096	---	---	2,538	3,096
Total revenues	8,925	9,572	13,332	13,143	---	---	22,257	22,715
Operating expenses								
Salaries and employee benefits	5,036	4,937	8,641	8,446	---	---	13,677	13,383
Amortization of intangible assets	71	---	2,447	2,448	---	---	2,518	2,448
Others	3,668	4,239	3,932	3,972	---	---	7,600	8,211
Total operating expenses	8,775	9,176	15,020	14,866	---	---	23,795	24,042
Income (loss) from operations	150	396	(1,688 )	(1,723 )	---	---	(1,538 )	(1,327 )
Dividends and interest income	---	---	---	---	1,736	1,688	1,736	1,688
Other income (net)	21	---	---	---	9	32	30	32
Interest expenses on note payable collateralized by real estate	(36 )	---	---	---	---	---	(36 )	---
Interest expenses on margin loans	---	---	---	---	(126 )	(112 )	(126 )	(112 )
Interest and penalty expenses accrued for uncertain and unrecognized tax benefits	---	---	(49 )	(44 )	---	---	(49 )	(44 )
Pretax income (loss)	\$135	\$396	\$(1,737 )	\$(1,767 )	\$1,619	\$1,608	\$17	\$237

### The Traditional Business

The Traditional Business segment's pretax income decreased by \$261,000 (66%) to \$135,000 from \$396,000.

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Advertising revenues decreased by \$586,000 (11%) to \$4,667,000 from \$5,253,000 primarily resulting from the declines in commercial advertising revenues and trustee sale notice advertising revenues. Commercial advertising revenues decreased by \$418,000 (23%) to \$1,382,000 from \$1,800,000 primarily due to the discontinuance of publishing the California Lawyer magazine and the continuing challenges in the commercial advertising business from internet sites devoted to online recruitments and steady consolidation of companies serving the legal marketplace resulting in an ever-smaller group of companies placing display advertising.

Trustee sale notices 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 15% during the six months ended March 31, 2016 as compared to the prior year period and accounted for about a reduction of \$324,000 in trustee sale notice advertising revenues. Because this slowing is expected to continue, there will be fewer foreclosure notice advertisements and declining revenues in fiscal 2016, and the Company's print-based earnings will also likely 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 six months ended March 31, 2016. Public notice advertising revenues and related advertising and other service fees constituted about 21% of the Company's total revenues for both the six months ended March 31, 2016 and 2015. Because of this concentration, the Company's revenues would be significantly adversely 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.

The Daily Journals accounted for about 85% of The Traditional Business' total circulation revenues, which declined by \$20,000 to \$2,964,000 from \$2,984,000. The court rule and judicial profile services generated about 9% 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 decreased by \$401,000 (4%) to \$8,775,000 from \$9,176,000 primarily due to decreased legal, accounting and other professional service fees of \$424,000.

### *Journal Technologies*

Journal Technologies' business segment pretax loss decreased by \$30,000 (2%) to \$1,737,000 from \$1,767,000 and included the amortization costs of intangible assets of \$2,447,000 and \$2,448,000 for the six-month periods ended March 31, 2016 and 2015, respectively.

Revenues increased by \$189,000 (1%) to \$13,332,000 from \$13,143,000 in the prior year period. Licensing and maintenance fees increased by \$317,000 (4%) to \$7,754,000 from \$7,437,000. Consulting fees increased by \$430,000 (16%) to \$3,040,000 from \$2,610,000. 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 and are recognized ratably over the maintenance period. Other public service fees decreased by \$558,000 (18%) to \$2,538,000 from \$3,096,000 primarily due to a reduction in the number of traffic tickets processed on a website for the public to pay traffic citations online and an Amnesty Program that reduces traffic ticket fines.

Operating expenses increased by \$154,000 (1%) to \$15,020,000 from \$14,866,000 primarily due to increased personnel costs and travel expenses which are expected to continue to increase in the foreseeable future.

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. Journal Technologies 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*

For the six months ended March 31, 2016, the Company recorded an income tax benefit of \$240,000 on pretax profit of \$17,000. The income tax benefit was the result of applying the effective tax rate anticipated for fiscal 2016 to pretax income for the six-month period ended March 31, 2016. The effective tax rate was lower than the statutory rate primarily due to the dividends received deduction and the domestic production activity deduction. On pretax income of \$237,000 for the six months ended March 31, 2015, the Company recorded an income tax benefit of \$700,000 which was the net result of applying the effective tax rate anticipated for fiscal 2015 to pretax income for the six months ended March 31, 2015. The Company's effective tax rate was -1,412% and -295% for the six months ended March 31, 2016 and 2015, 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 2012 with regard to federal income taxes and fiscal 2011 for state income taxes.

At March 31, 2016, the Company had an accrued liability of approximately \$2,866,000 for uncertain and unrecognized tax benefits relating to an acquisition in fiscal 2013, after a reduction of \$378,000 resulting from the recognition of deferred revenues and from the amortization of goodwill for tax purposes. 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 to the Company's effective tax rate. During the six-month periods ended March 31, 2016 and 2015, interest expenses of approximately \$49,000 and \$44,000, respectively, were recorded as "interest expense accrued for uncertain and unrecognized tax benefits" in the Consolidated Statements of Comprehensive Loss.

### *Comprehensive Loss*

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



Comprehensive Loss

	Six months ended March	
	2016	2015
Net income	\$257,000	\$937,000
Net decrease in unrealized appreciation of marketable securities (net of taxes)	(4,131,000)	(4,444,000)
	\$(3,874,000)	\$(3,507,000)

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Comparable three-month periods ended March 31, 2016 and March 31, 2015

Consolidated revenues were \$11,442,000 and \$11,392,000 for the three months ended March 31, 2016 and 2015, respectively. This increase of \$50,000 was primarily from increased Journal Technologies' license and maintenance fees of \$427,000 and consulting fees of \$246,000, partially offset by a reduction in The Traditional Business's trustee sale notice and related service fee revenues of \$107,000 and commercial advertising revenues of \$210,000 (primarily due to the discontinuance of publishing the California Lawyer magazine) and Journal Technologies' public service fees of \$412,000 primarily due to a reduction in the number of traffic tickets processed on a website for the public to pay traffic citations online and an Amnesty Program that reduces traffic ticket fines. The Company's revenues derived from Journal Technologies' operations constituted about 61% and 59% of the Company's total revenues for the three months ended March 31, 2016 and 2015, respectively.

Consolidated operating costs and expenses decreased by \$340,000 (3%) to \$12,018,000 from \$12,358,000, primarily resulting from reduced expenses for The Traditional Business, partially offset by additional expenses for Journal Technologies. Total personnel costs increased by \$258,000 (4%) to \$7,029,000 from \$6,771,000 primarily resulting from added personnel for Journal Technologies. Postage and delivery expenses decreased by \$20,000 (6%) to \$292,000 from \$312,000, and newsprint and printing expenses decreased by \$39,000 (15%) to \$219,000 from \$258,000 primarily because of the discontinuance of publishing the California Lawyer magazine effective October 1, 2015. Other general and administrative expenses decreased by \$578,000 (21%) to \$2,237,000 from \$2,815,000 mainly because of decreased rent, legal, accounting and other professional service fees, partially offset by increased travel costs for installation services and selling expenses for Journal Technologies. Depreciation and amortization costs, which included the amortization of Journal Technologies' intangible assets of \$1,223,000 and \$1,224,000 for the three-month periods ended March 31, 2016 and 2015, respectively, increased by \$61,000 (4%) to \$1,428,000 from \$1,367,000 mainly resulting from the additional depreciation expense for the recently acquired Logan, Utah office building.

The Company's non-operating income, net of expenses, decreased by \$67,000 to \$728,000 from \$795,000 primarily because of additional interest expenses for the Company's real estate loan. During the three months ended March 31, 2016, consolidated pretax income was \$152,000 as compared with pretax loss of \$171,000 in the prior year period.

There was net income of \$207,000 (\$0.15 per share) for the three months ended March 31, 2016 as compared with \$504,000 (\$0.37 per share) in the prior year period.

**Liquidity and Capital Resources**

During the six months ended March 31, 2016, the Company's cash and cash equivalents and marketable security positions decreased by \$9,899,000 to \$171,759,000. Cash and cash equivalents were used primarily for the purchase of marketable securities of \$3,838,000 and capital assets of \$3,628,000, including \$3,500,000 for the Logan, Utah building. The investments in marketable securities, which had an adjusted cost basis of approximately \$58,382,000 and a market value of about \$162,531,000 at March 31, 2016, generated approximately \$1,736,000 in dividends and interest income.

Cash flows from operating activities decreased by \$4,921,000 during the six months ended March 31, 2016 as compared to prior year period primarily resulting from (i) decreases in net income of \$680,000 and accounts payable and accrued liabilities of \$1,612,000 as more liabilities were paid and (ii) increases in accounts receivable of \$2,453,000 primarily due to more billings. The net cash used for operating activities of \$1,157,000 included decreases in deferred installation contracts and maintenance agreements of \$2,023,000.

As of March 31, 2016, the Company had working capital of \$117,204,000, including the liabilities for deferred subscriptions and deferred installation contracts and deferred maintenance agreements and others of \$16,420,000, which are scheduled to be earned within one year, and the deferred tax liability of \$40,060,000 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 note payable collateralized by real estate 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 March 31, 2016, 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 (such as the other-than-temporary impairment losses of \$376,000 recognized during fiscal 2015, \$1,719,000 recognized in fiscal 2013 and \$2,855,000 recognized in fiscal 2012).

### **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, 2015. 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 declines in the market prices of the securities owned by the Company. 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, 2015.

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, 2015. There have been no material changes to the Company's market risk exposures since September 30, 2015.

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, 2015, management concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2016. As the Company prepares to adopt the 2013 COSO framework in this fiscal year, 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 March 31, 2016.

**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



Chief Executive Officer

President

Chief Financial Officer

Treasurer

(Principal Executive Officer,

Principal Financial Officer and

Principal Accounting Officer)

DATE: May 10, 2016